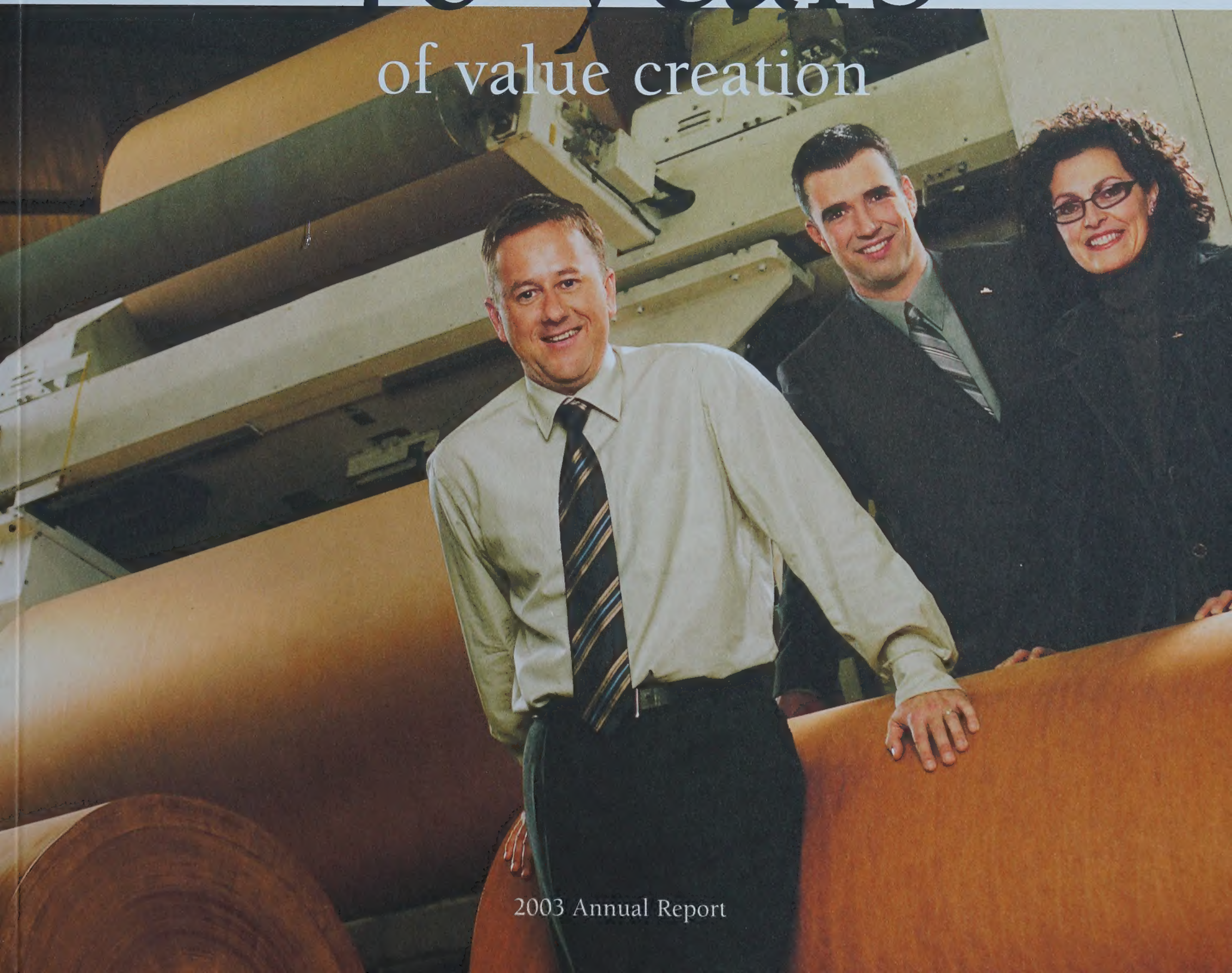
Cascades

40 years

of value creation



2003 Annual Report

A challenging year indeed Arriving on the heels of Cascades' best year ever, it was disappointing to watch the past year's global economic environment play havoc with our business and our industry.

Several factors accounted for the abrupt turnaround, chief among them the surging Canadian dollar coupled with a generally sluggish economy, rising energy prices, fierce competition and—the corollary of all this—declining prices. As well, a sharp rise in global competition disrupted fibre markets and reduced the flow of finished goods in North America, severely impacting our packaging business.

Nevertheless, Cascades remains in sound financial shape, with a solid balance sheet and the successful completion in 2003 of a new four-year revolving credit facility of CAN $500 million and new unsecured 7.25% senior notes for an aggregate amount of US $550 million.

Taking action While the global economic environment is clearly beyond our control, Cascades' culture will not permit passivity in the face of challenge. In 2003, therefore, we turned up the intensity of our campaign to control expenses, raise efficiency and sharpen competitiveness. Every area is under scrutiny and review: how we source and purchase raw materials, how we develop and make products, how we market ourselves and serve customers. Every facility has set ambitious goals for further reductions in waste and rejects and for bringing energy use to absolute minimums. In addition, we have begun the process of rationalization, assessing every activity for its contribution to the Company's overall goals. This process will help us to operate a more efficient and leaner organization. We continue to believe that in today's environment, market share and capacity are poor measures of success. We prefer to be guided by the bottom line. This is why we have committed to undertaking new investments aimed at enhancing efficiencies or synergies, or reducing costs by a significant margin within a short time.

Just as our corporate culture helped us in 2003, our decentralized structure proved to be another key asset. Since Cascades mills and plants operate as independent profit centres, they're able to move quickly, setting individual action plans and goals that support the overall corporate objectives. Pushing responsibility down to the plant floor has served Cascades well in good times, and is serving us even better today.

In this crowded and competitive market, we're taking steps to differentiate Cascades through superior customer service and quality products. We're also sharpening our focus on developing and marketing higher-margin, value-added products, particularly in the Packaging Products and Fine Papers sectors.

Finally, while we aren't entertaining the possibility of large acquisitions in 2004, we will pursue opportunities if the asset is undervalued or mismanaged, yields significant strategic advantage, fits our core business and can be quickly turned around to bring value to the bottom line.

Our sustained advantage is people Recruiting skilled front-line people is a growing challenge to which we are responding with continued investment in training. Greater automation is compensating to some degree, while raising productivity. At the management level Cascades remains strong. Our leadership pipeline remains full because we recruit high-potential performers at a young age, encourage them to adopt Cascades' entrepreneurial culture, and promote from within. While we have always believed Cascades is a good company to work for, that fact was confirmed—and indeed celebrated in 2003—when we were named among "Canada's Top 100 Employers™." This is a great honour, but we believe we can do even better, and must continuously keep pace with each new generation of employees.

Marc-André Dépin, named President and CEO of Norampac in December, is a stellar example of Cascades' excellence in leadership. As former Executive Vice-President, Marc-André's ability and accomplishments made him the obvious choice—at 38 years of age. We're proud of the remarkably youthful leadership at Cascades. Indeed, our senior management team's average age is 47 years, while their average experience at Cascades is 16 years. That tells you a great deal about loyalty, commitment, experience and, most important of all, the future of our Company.

40 years of value creation When our family founded Cascades 40 years ago, we never imagined how it would grow and evolve. We began with a good concept, but ideas will take you only so far. To go all the way, you need the very best people. And we were lucky to have had access to excellent people right from the start, with whom we shared our values and success, and with whom we worked as a family.

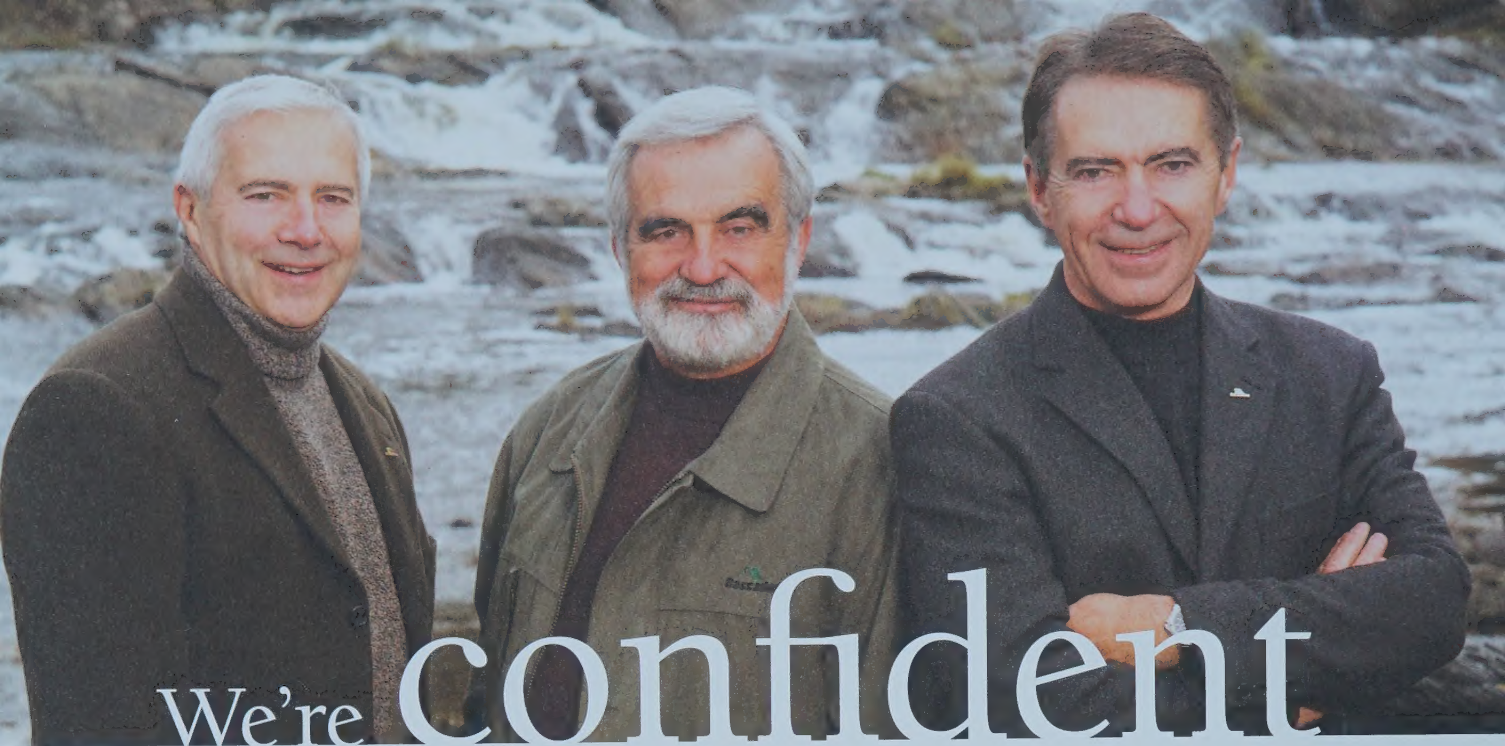
Bernard and Laurent, who preceded Alain as CEO of Cascades, set the bar very high. While Alain is taking over at a challenging time, he knows he can always rely on Bernard's and Laurent's experienced counsel.

Outlook The global economic environment, requiring us to focus tactics on short-term imperatives, is making medium- and long-term planning a formidable challenge. This is why, over the course of 2004, the management team will re-evaluate all operations from short- and medium-term perspectives, bringing our resources to bear on our top-performing businesses. In these times, Cascades' decentralized structure and flexibility are definite assets, enabling us to shift operations and strategy as circumstances dictate. In addition, the team will closely monitor trends as they emerge, in order to seize opportunity at the earliest possible moment. We remain in good financial position and, as a company that has experienced and learned a great deal over its remarkable 40-year history, we can take the long-term view on the current situation.

In closing, we would like to thank Laurent for his 11 years of service at the helm of Cascades. We would also like to thank Simon L'Heureux and Paul Pelletier, two long-standing members of our Board who retired in April 2003, whose guidance was critical during their years of service. Finally, we welcome our newest Board members, Robert Chevrier and David McAusland. We look forward to their contributions as Cascades embarks on the next 40 years of opportunity.

Alain Lemaire
President and Chief Executive Officer

Bernard Lemaire
Chairman of the Board



We're confident

that the core values supporting Cascades' growth and prosperity over a remarkable forty-year history will sustain us through today's global economic challenges. As in the past, our fortunes are directly tied to people. Smart, dedicated people helped our Company to achieve great things. Smart, dedicated people continue to shape our future.

ALAIN, BERNARD AND LAURENT LEMAIRE

Cascades is...

A North American leader in the manufacture, converting and marketing of packaging products, tissue papers and fine papers made primarily with recycled fibre. Cascades employs more than 15,000 men and women in some 150 operating units in North America and Europe, and owns or has interests in 21 paper recovery centres, recycling more than two million short tons of paper and board annually.

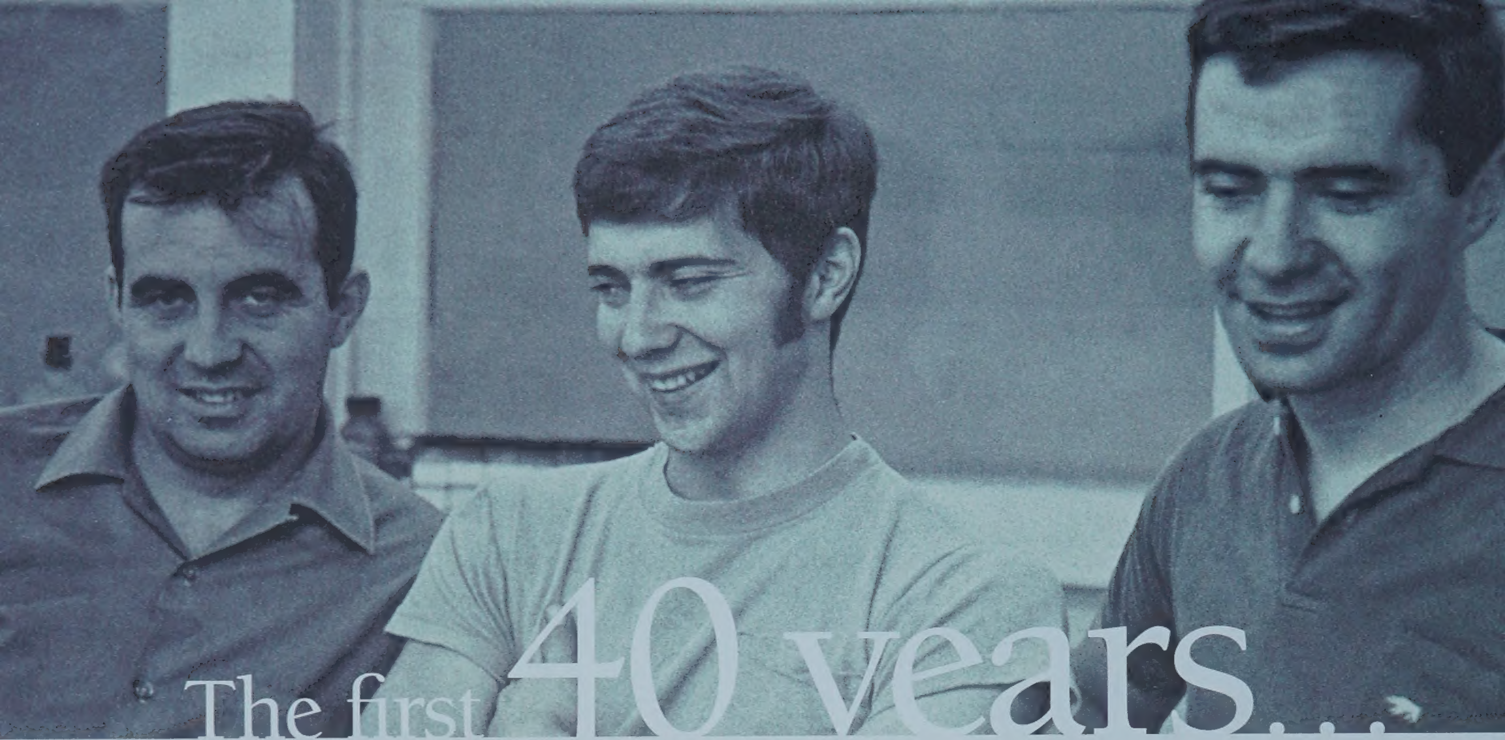
Financial results (in millions of dollars, except per share amounts and ratios) (for the years ended December 31)	**2003**	2002	2001
Net sales	**3,227**	3,375	3,023
Operating income before depreciation and amortization (OIBD)	**250**	424	380
Operating income	**105**	285	248
Net earnings	**55**	169	109
per common share	**$ 0.66**	$ 2.07	$ 1.33
Cash flow from operating activities	**140**	325	314
Purchase of property, plant & equipment	**122**	129	122
Dividend per common share	**$ 0.16**	$ 0.12	$ 0.12
Financial position (as at December 31)			
Total assets	**2,927**	2,959	2,733
Total long-term debt	**1,110**	1,095	1,103
Shareholders' equity	**1,056**	1,065	870
per common share	**$12.93**	$13.02	$10.75
Stock information (CAS: TSX)			
Trading volume (in millions)	**25.9**	41.3	31.7
High	**$16.87**	$18.25	$10.44
Low	**$11.15**	$10.30	$ 6.41
Stock price at closing	**$12.38**	$15.65	$10.41
Number of shares issued and outstanding (in millions)	**81.7**	81.8	81.0
Market capitalization	**1,012**	1,281	843
Financial ratios (for the years ended December 31)			
Return on equity	**5.2%**	17.5%	13.3%
OIBD/net sales	**7.7%**	12.6%	12.6%
OIBD/financial expenses	**3.0x**	5.9x	4.4x
Net funded debt/OIBD	**4.5x**	2.7x	3.1x
Net sales/total capitalization	**1.3x**	1.4x	1.3x
Net funded debt/total capitalization	**45.5%**	46.8%	51.4%
Shipments summary (major products, in thousands of short tons)			
Packaging products	**1,577**	1,610	1,533
Tissue papers	**368**	338	247
Fine papers	**279**	313	297

Cover page:

LUC LANGEVIN
GENERAL MANAGER,
CONVERTING PRODUCTS AND UNCOATED BOARD

SIMON PROVENCHER
SALES REPRESENTATIVE,
CASCADES CONVERSION INC.

JULIE GIASSON
PLANT MANAGER,
CASCADES PAPIER KINGSEY FALLS



The first 40 years...

A little more than 40 years ago, a daring idea began to germinate in the minds of Antonio and Bernard Lemaire. The father and his eldest son, with scant resources, conceived of an ambitious plan to revive a neighbouring town's paper mill... and perhaps to also revive an entire town.

BERNARD, ALAIN AND LAURENT LEMAIRE

CORPORATE STRUCTURE

Cascades Inc.

38% Lemaire family | 62% Public

Boxboard Group | Containerboard Group (50% of Norampac Inc.) | Specialty Products Group | Tissue Group | Fine Papers Group

PACKAGING SECTOR

On March 26, 1964, Cascades Paper Inc. was officially born in Kingsey Falls, Québec. Today, the company they built is studied in business schools as a case history of extraordinary success. But how did the Lemaire brothers manage to transform a single mill into a multinational company whose unique management style is widely celebrated and taught?

Right from the start, the Lemaire brothers had a business concept as bold and enterprising as themselves—to manufacture paper for industrial markets using recycled pulp, a raw material that cost next to nothing. With the help of the local financial institution, the Lemaires acquired their first paper mill, which would become the business model for many subsequent successes. Over the course of nearly 20 years, the Company acquired other shutdown or declining mills and adapted them to the Cascades business model. At the same time, the Company rapidly diversified into the manufacture of moulded pulp, tissue papers, corrugated carton and boxboard.

What made Cascades such a spectacular success? Apart from a unique business idea, the Lemaires also had an equally unique people-oriented management philosophy. From the beginning, they respected the value and contribution of every single employee. People are Cascades' most precious corporate resource, and self-evidently the fundamental reason behind this Company's rapid rise.

In 1982, Cascades launched an initial public share offering and embarked on a new phase of expansion. Propelled into the ranks of the world's great papermakers, Cascades became a shining star. At the same time, the Company began to conquer new markets in Québec, Ontario, the United States and Europe.

Return on a $1,000 investment made in 1982

Investment as at	Number of shares*	Market Price	Capital	Dividends Received	Investment in Cascades	S&P/TSX Composite Index
December 31, 1982	200	$ 5.00	$ 1,000		$ 1,000	2,663
December 31, 2003	1,600	$ 12.50	$20,000	$ 1,456	$21,456	18,732
Compounded annual return – 21 years					15.7%	9.7%

* Considering 2 for 1 stock split on July 5, 1984, September 16, 1985 and May 13, 1986.

During the 1990s, Cascades restructured its diverse activities into five autonomous and specialized groups: Boxboard, Containerboard, Specialty Products, Tissue Papers and Fine Papers. Through the end of the decade, the acquisitions and partnerships continued to multiply.

Today, after 40 years, Cascades has more than 15,000 employees in six countries, along with sales offices in Eastern Europe and Asia. After 40 years, Cascades continues to uphold its philosophy and values: "Our philosophy is this Company's greatest accomplishment, representing the most precious gift we can pass on to the next generation of Cascades employees," wrote Bernard Lemaire in 1993. After 40 years, Cascades is well prepared for the future, with some very familiar assets—a vibrant spirit of innovation, a dynamic corporate culture, and human capital that's far greater than the sum of its parts. After 40 years, Cascades is once again ready to meet the greatest challenges… of the next 40 years!

We're determined

to maintain our leadership in the packaging sector by managing our business to exacting standards. We are continuing to reduce costs and raise efficiency levels. We are deriving maximum productivity from minimal resources. And we are exercising leadership and ingenuity that differentiate us today, and will prepare us for tomorrow.

FROM LEFT TO RIGHT: MARIO PLOURDE, PRESIDENT AND CHIEF OPERATING OFFICER, SPECIALTY PRODUCTS GROUP, ÉRIC LAFLAMME, PRESIDENT AND CHIEF OPERATING OFFICER, NORTH AMERICA, CASCADES BOXBOARD GROUP, MARC-ANDRÉ DÉPIN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NORAMPAC INC.

Boxboard

In 2003, the Boxboard Group had net sales of $954 million, as compared with $958 million the previous year. Canada's leading maker of coated boxboard and folding cartons, we rank among the top ten in North America and top five in Europe. Our seven coated boxboard mills on two continents have a combined production capacity of 953,000 short tons, while our six carton plants' capacity is 2.4 billion boxes per year. The Boxboard Group also operates a sawmill and a pulp mill in Québec, and has a 50% stake in Dopaco, Inc., a North American provider of packaging solutions to the quick-service restaurant industry.

During the past year, the depreciating U.S. dollar, along with overcapacity and weak demand, increased competition at home and abroad. The fallout was swift, as prices spiralled steadily downward, followed by industry consolidation and plant closures. In this global environment, our strategic integration provides us with some control over the supply and production chains. The resulting efficiencies enabled us to take almost no downtime in North America. But, in Europe, the effect of weak export markets and the surging euro combined to slow production by 12%. However, we are continuing to pursue sales opportunities in fast-growing Eastern European and Asian economies.

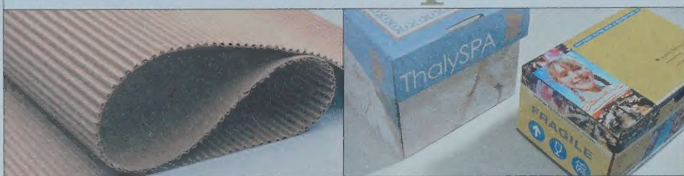
Our response was swift In 2003, we addressed the North American challenge by exiting non-profitable customer accounts for folding cartons. Also, we launched SCORE (Simplify, Communicate, Optimize Results Effectively), an aggressive program aimed at cutting costs, boosting efficiency and enhancing our customer orientation. SCORE's objective is to reduce waste throughout our operations, thereby helping us to meet the challenges of today's market while strengthening our business culture.

Also in North America, we're differentiating ourselves through customer service, added value and innovation. For example, sales of ArctiKoat™ have surged from zero to 15,000 short tons in just two years. This hybrid product—a recycled ply between coated virgin sheets—offers premium appearance, printability and grease-resistance (making it ideal for the quick-service restaurant industry) at a lower price than all-virgin product. All told, in 2003 the Group's packaging solutions earned 13 prizes from industry associations.

Strategic investments In 2003, the Boxboard Group increased its stake in Dopaco, Inc. to 50%. A key player in packaging for quick-service restaurants, Dopaco is also an excellent customer for our Jonquière board mill, buying 50% of the production. In 2003, we also increased to 100% our interest in the ultra-modern P.H. Lemay sawmill, which markets lumber and supplies two Cascades mills with 20% of their virgin fibre.

Despite strong competition, the Boxboard Group is well positioned, increasing its profile as a premium supplier of packaging solutions offering superior service and customer-driven innovation.

Norampac



A joint-venture company owned equally by Cascades and Domtar, Norampac has in six years grown into Canada's largest containerboard maker and the seventh-largest in North America. Norampac operates eight linerboard and corrugating medium mills, 25 corrugated products plants, a testing lab and a printing die plant. Norampac's 2003 net sales were $1.16 billion, compared with $1.2 billion in the previous year.

A strong Canadian dollar exerted significant pressure on domestic and export markets in 2003. The United States market also witnessed an unprecedented fourth year in a row of declining box demand, driven by a shrinking manufacturing sector. This 6% decline is equivalent to the production from 50 box plants. Customers are responding with smaller inventories of boxes, thereby increasing pressure on suppliers to fill orders at short notice.

Holding the line in tough times Despite the year's challenges, Norampac exercised leadership in key areas, steadily rolling back fixed costs, linking production to customer demand at several mills, and avoiding excessive inventory. As part of its energy cost containment program, Norampac has ambitious projects in place or coming on line at every facility. Notable examples include a new bark boiler at the Cabano mill; an investment at Trenton to burn mill by-products; and a two-mile pipeline that brings steam from an incinerator to the Niagara Falls, NY facility.

Extending our strategic strengths Norampac operates a unique network of Canadian boxplants that enables it to serve customers coast-to-coast. Its closed-loop system, whereby it controls the entire recovery-manufacture-converting-distribution chain, offers a compelling economic and environmental argument, attracting large national customers and reducing Norampac's exposure to volatile markets. While its strategy is to adapt this model to the United States, one should recognize that the two markets are significantly different. In Canada, due to high market shares, Norampac serves all types of customers, including large national accounts. In the U.S., Norampac will develop a diversified products portfolio for a regional customer base. Norampac is also building its network in the Northeast, anchored by facilities in Buffalo, Boston, New York City and a recent acquisition in Schenectady, NY. The Schenectady acquisition has also boosted North American integration to 60%, approaching the 70% goal. From our Northeast base, Norampac plans to expand to the south and the west, acquiring strategically located boxplants.

Specialty Products

Cascades' most diversified group is active in seven business activities and operates 29 mills or plants in North America and France. Despite the challenges posed by the Canadian dollar's rapid surge, along with energy costs, prices and competition, the Group turned in satisfactory results in 2003 with net sales of $458 million, as compared with $455 million in 2002.

Cost and energy containment, along with a sharper focus on efficiencies and strategic action will continue to drive operations in 2004. For example, we have already launched a group-wide cost and energy savings program to head off unplanned expenses. Shifting markets for certain of our products have led us to adopt a more strategic approach. Our kraft paper mill in East Angus, Québec offers a good example. Targeting niche markets, in 2003 we introduced 11 new grades, fine-tuned product recipes and boosted product quality.

Similarly, our uncoated board and converting business, which makes packaging products for paper mills, improved quality and signed several long-term agreements, increasing our tonnage and market share. The clear leader in Canada, this group is now targeting significant growth potential in the United States. We launched a new honeycomb board production line at our Toronto facility to meet increasing demand and also installed an advanced planning and scheduling system—a relatively small investment that has raised efficiency and reduced changeover time, as well as rejects and waste.

Our plastics business increased its sales to the food sector by 4%. It also set the stage for future gains by attaining the first North American Hazard Analysis and Critical Control Points (HACCP) accreditation for producing meat trays, quick-service restaurant packaging and other food-related products. This accreditation strengthens our offering by responding to growing public concern about industrial hygiene. In addition, we invested in a new production line of an extruded lumber substitute made of 60% recycled wood/40% recycled plastic. This niche product, currently sold by lumber yards and large home renovation centres, offers superior performance and eliminates the health concerns associated with treated wood.

With the acquisition of a Montréal area recovery centre, our local paper recovery volumes and tonnage increased by some 25% in 2003. We also expanded our Lachine plant and won the contract for the City of Gatineau, where a new sorting plant goes into operation in the spring of 2004. Plans for 2004 call for increasing the proportion of fibre we control via greater integration or strategic acquisitions. Under this line of thought, Metro Waste Paper Recovery Inc., a leading North American recuperator, 50% controlled by Cascades, won a seven-year contract from the City of Toronto in 2003. A state-of-the-art automated sorting plant is now in operation, and plans are in place to grow this model to other North American cities.

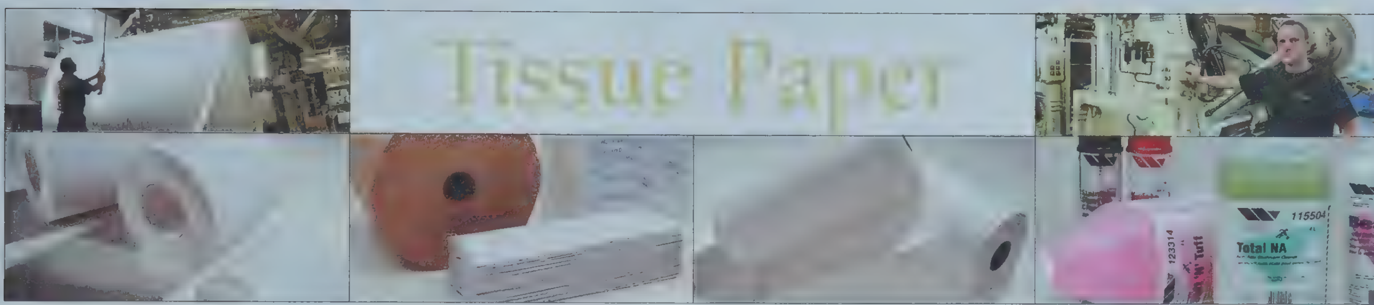
Together with Dalum Papir, a Danish partner, we acquired a large de-inking operation just outside Paris, France. We are working on returning this strategically located facility to profitability within 18 months, increasing fibre output, and integrating production with Cascades and Dalum's European operations.

Looking ahead, the Specialty Products Group will continue to target niche markets, launching more niche and value-added products that are less vulnerable to market downswings.

We're focussed

on gaining ground and extending our leadership in 2004. While markets and economic conditions for Cascades Tissue Group are challenging, our strategy remains on course, our objectives unchanged and our determination unwavering.

SUZANNE BLANCHET, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CASCADES TISSUE GROUP



A leading tissue paper producer in the retail and away-from-home sectors, the Cascades Tissue Group has Canada's second-largest production capacity and ranks fourth in North America. We operate eight mills, six converting plants, 13 distribution centres and five state-of-the-art de-inking facilities. The Group doubled in size during the past three years and now accounts for 20% of Cascades' net sales and 30% of operating income before depreciation. Net sales for 2003 were $644 million, as compared with $682 million in 2002.

Strategy remains on course The Group's strategy, put in place in the mid-90s, remains sound. Following major capital investments from 1995 to 1998, we acquired distributor and converter Wood Wyant in 2000; tissue producer Plainwell in 2001; and selected American Tissue assets in 2002. Also in 2002, we restructured our sales force to better address Western and national accounts, and began moving converting equipment into key markets in 2003. As a result, the Group is now well positioned. We're consolidating our Eastern gains and building a solid base from which to expand westward and increase integration.

As part of our ongoing consolidation, at the end of 2003 we announced the closing of the non-core production of kraft paper bags at our Lachute plant, in order to concentrate on manufacturing industrial hand towels. Three mills moved to the cleaner and more customer-friendly chlorine-free process. Finally, our Laval plant's investment in three state-of-the art automated lines increased napkin production for national accounts by 30%. At the end of 2003, we opened a new converting facility in Calgary to better serve our Western Canadian accounts.

Enhancing our retail presence through innovation While the Group is Canada's leading private-label manufacturer, the long-term vision is to also build the Cascades™ brand. We're currently concentrating on our Québec home market, from which we'll roll out nationally, according to market acceptance. Responding to the retail market's insatiable demand for innovation, in 2003 our R&D team developed a three-ply premium kitchen towel. Retailer-friendly innovations include tailor-made products and formats, vendor management inventory and customer replenishment. In the United States, where private-label market share is far smaller, we're leveraging our Canadian expertise to cultivate large retail chains. In 2003, we opened a converting plant in Kingman, Arizona—an investment to be completed in 2004 that increases our Western presence and ability to serve national accounts.

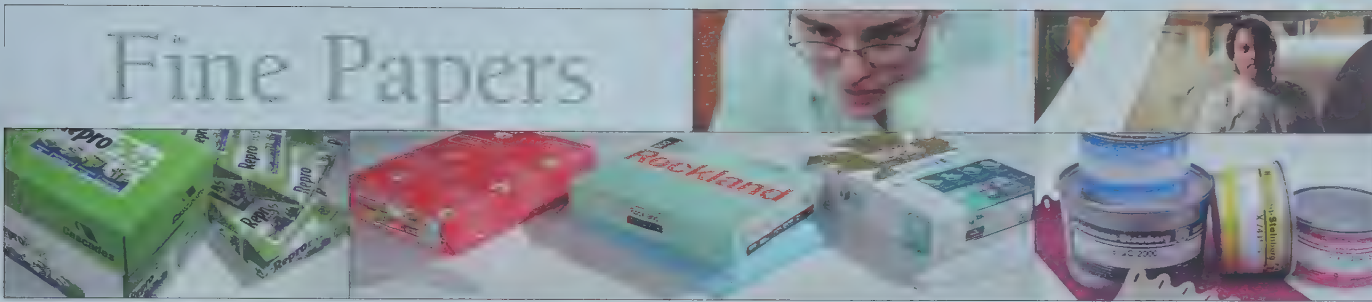
Away-from-home markets In a generally flat market, the Tissue Group maintained its long-standing partnerships with distributors and national accounts, which represent 30% of Canadian sales. From its position of strength, the Group is continuing to expand in the U.S.

In 2004, the Tissue Group will continue to focus on optimizing its newly acquired facilities, gaining market share and courting large North American accounts. And we will pursue the kind of opportunistic acquisitions that have been a springboard for growth in the past.

We're moving forward by building on our strengths, controlling costs and working smarter. And, by shifting to higher value, higher quality fine papers, we're redefining how we do things from the mill floor to the boardroom. We're honing our competitiveness so the moment markets rebound, the Fine Papers Group is ready to roll.

DENIS JEAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CASCADES FINE PAPERS GROUP

Fine Papers



The Fine Papers Group is Canada's second-largest manufacturer of premium specialty papers for printing, graphic arts and publishing, with an uncoated paper mill and converting centre in Saint-Jérôme, Quebec and a coated paper mill in Thunder Bay, Ontario. We rank number one in security papers and second as a fine papers distributor, with 15 centres across Canada. The Group also makes one of North America's best de-inked pulps, in Breakeyville, Québec. In 2003, the Group's net sales were $703 million, down from $770 million in 2002.

Unfavourable industry-wide conditions led to the fourth straight year of depressed uncoated freesheet demand, and the lowest price for coated papers in 20 years. Nevertheless, the Group continued to build leadership in security papers used to print cheques, passports, lottery tickets and certificates. Security paper sales have grown threefold in the last three years. Our distribution business continued to implement its diversification: approximately 20% of Cascades Resources sales are non-paper products and this figure is expected to continue increasing.

Staying in the game In 2003, the Fine Papers Group launched vigorous cost-cutting measures and redefined work processes while increasing integration with its Breakeyville de-inking plant and reducing low-margin commodity products.

Recognizing that product quality and performance are driving competitiveness, our Saint-Jérôme mill increased brightness on its rollandhitech™ and Rolland Opaque™ sheets. We introduced digital formats and new retail packaging for the small business/home office markets, and launched the Rolland Enviro Edition 100™, a high recycled-content book paper.

Operationally, the mill is investing in equipment that will improve the surface quality of paper produced on machine #8. Early in 2004, the mill announced a cost-saving energy project, whereby biogas will be piped from a nearby landfill. A first in Québec, the project, a collaboration with Intersan and Gaz Métro places Saint-Jérôme foremost as an environmental leader. Converting operations, near to the mill, optimized a high-speed sheeter which produces digital sizes for commercial printers, thereby reducing costly subcontracting.

In Thunder Bay, we enhanced the shades of several products and installed equipment that boosted surface quality on our Jenson^{MC} coated paper, and we introduced a new reply card and a coated-one-side label grade.

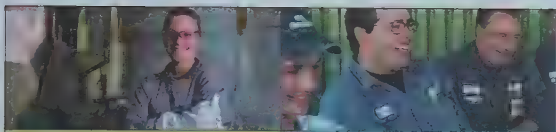
In late 2003, the Group expanded its sales force in the U.S. Midwest, New England and Ontario, targeting merchant sales for sheet and value-added grades.

Looking ahead While pursuing deeper cost cuts and accelerated product development, the Fine Papers Group will launch an audit review of all operations. Our distribution business is targeting new sales to the packaging industry, and building a sales organization to market a line of state-of-the-art, computer-to-plate solutions from Creo, for which we hold the Canadian franchise.

Growing together

Cascades was founded in a small town by a family that invited its community to help them grow together. Forty years later, with far-flung operations across North America and Europe, and with more than 15,000 employees, Cascades' head office remains in that same small town—Kingsey Falls, Québec…

MARIE-PIERRE PAQUETTE, ASSISTANT, COMMUNICATIONS DEPARTMENT



Work Force

Number of [illegible]	Average years of service	Average age	Apprentices hired	Students [illegible]
[illegible]	12	41	200	[illegible]

… where the founders continue to live alongside their friends and neighbours. This tells you a great deal about Cascades' sense of community and family. A great deal has changed in 40 years… but in some respects, much remains the same.

Let's keep it clean: the environment Cascades' environmental commitment runs deep—all the way back to 1964 and to the Company's pioneering work in paper recycling and energy conservation. Today, we continue to occupy the vanguard in responsible resource management, respecting the values that contributed so much to our growth. Cascades operations aim to meet or exceed all environmental regulations. We also have significant programs in place to further reduce air emissions and waste, along with energy and water consumption. During the past year, we recycled more than two million tonnes of paper and board, saving the equivalent of 34 million trees. We also revised our Environmental Mission to clearly lay out corporate and senior management responsibilities.

In the pulp and paper industry, where water and fibre are the main raw ingredients, Cascades leads the way in conserving both of these precious resources. For example, Cascades mills use an average of 20 cubic metres of water per metric ton of manufactured product. This compares to the Canadian industry average of 60 cubic metres of water per metric ton of manufactured product. In addition, two thirds of the fibre we use is recycled, primarily by our own recycling and de-inking facilities.

Staying close to home: community support At Cascades, respect for employees extends far beyond the workplace. As a responsible corporate citizen, we contribute to the communities where Cascades employees make their homes and raise their families. We do this by supporting local programs and events that are important to our employees — and therefore to us. In 2003, Cascades granted $3.6 million to some 350 community organizations, universities and hospitals through direct funding or sponsorships.

Staying close to people: our human resources Cascades recognizes that in a highly competitive environment, its main advantage resides in the quality of its people. Indeed, we are privileged to employ a dedicated and resourceful group, who bring to Cascades an unusual combination of youth and long-standing service. Their loyalty is our reward for the opportunities in career advancement and empowerment we offer. In 2003, we were also rewarded by being named among "Canada's Top 100 Employers™."

Remuneration

Total remuneration	Profit-sharing	Employee benefits	Gross payroll
1,055,600	37,400 (thousands of $)	285,500 (thousands of $)	732,700

During the past year, we invested more than $14 million in training, upgrading our people's skills and their value to Cascades. This in turn helps to motivate our team, encouraging them to remain where they can enhance their careers, families and communities. We paid more than $1 billion in remuneration during 2003, including $37 million in profit-sharing.

Cascades was founded 40 years ago on the premise that if we treat people and the environment with respect, we will be rewarded with a stronger business and a better world in which to live. Over the course of 40 years, these fundamental values have remained as a touchstone, and will continue to guide our conduct in the future.

Training

Number of training hours	Number of employees	Investment	Training costs/ total remuneration
449,000	10,600	14,500 (thousands of $)	1.4%

*All numbers in the Social Report include 100% of our joint-venture operations.

Management's Discussion and Analysis of Financial Position and Operating Results

Following is management's discussion and analysis ("MD&A") of the results of operations and financial position for Cascades Inc. ("Cascades" or the "Company"), which should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the years ended December 31, 2003 and 2002. For additional information, readers are referred to the Company's Annual Information Form ("AIF"), which is published separately. Information contained herein includes any significant developments before February 25, 2004, the date of approval of the MD&A by the Board of Directors.

The MD&A is intended to provide readers with the information that management believes is required to gain an understanding of Cascades' current results and to assess the Company's future prospects. Accordingly, certain statements in this MD&A, including statements regarding future results and performance, are forward-looking statements within the meaning of securities laws based on current expectations. The accuracy of such statements is subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those projected, including, but not limited to, the effect of general economic conditions, decreases in demand for the Company's products, increases in raw material costs, changes in the relative values of certain currencies, fluctuations in selling prices, and adverse changes in general market and industry conditions.

The financial information contained herein, including tabular amounts, is expressed in Canadian dollars, unless otherwise specified, and is prepared in accordance with generally accepted accounting principles in Canada, or Canadian GAAP. Unless otherwise indicated or required by the context, the terms "we," "our" and "us" refer to Cascades Inc. and all of its subsidiaries and joint ventures. The financial information included in this analysis also contains certain data that are not measures of performance under Canadian GAAP ("non-gaap measures"). For example, the Company uses operating income before depreciation and amortization ("OIBD") because it is the measure used by management to assess the operating and financial performance of the Company's operating segments. Such information is reconciled to the most directly comparable financial measures, as set forth in the supplemental information on non-gaap measures section.

FROM LEFT TO RIGHT: ANDRÉ BELZILE, VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER
ALLAN HOGG, CORPORATE CONTROLLER AND TREASURER, SONIA TURCOTTE, CORPORATE ACTUARY

Overview

Cascades is a diversified producer of packaging products, tissue paper and fine papers with operations in Canada, the United States and Europe. The Company has leading market positions for many of its products in North America and is a leading producer of coated boxboard in Europe.

Although the Company believes that its products, markets and geographical diversification help to mitigate the adverse effects of industry conditions, the markets for some of its products are highly cyclical. These markets are heavily influenced by changes in the North American and global economies, industry capacity, and inventory levels maintained by customers, all of which affect selling prices and profitability.

In 2003, the Company achieved a satisfying performance despite difficult economic conditions. Sales decreased by 4% and operating income was more than 60% lower than in 2002. These declines are principally attributable to volume and net realization price decreases experienced in most of the Company's operating sectors, reflecting difficult market conditions in North America and Europe. Overall business volumes, excluding volumes resulting from acquisitions completed in the last two years, were lower for most business sectors. The devaluation of the U.S. dollar affected the proceeds of export sales from Canada and Europe, further reducing Canadian dollar prices in the domestic market, and reflecting the reality of North American pricing for several of the Company's product lines.

The following table shows the historical movement of average benchmark list prices for some of our key products:

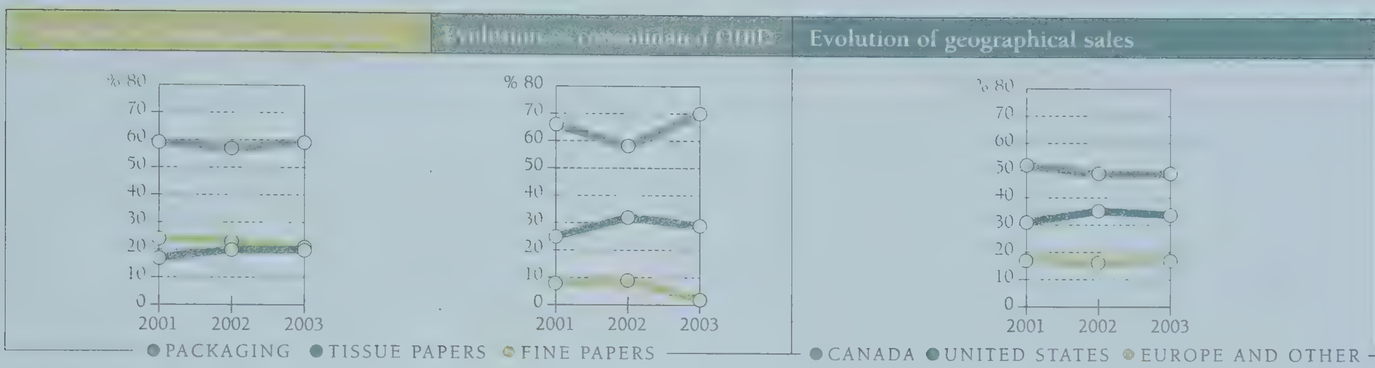
Benchmark product	**2003**	2002	2001	2000	1999
Packaging *(US$/short ton)*					
—Recycled boxboard-20-pt. clay coated	**$653**	$584	$595	$598	$535
—Linerboard-unbleached kraft, 42 lb.–Eastern U.S.	**$421**	$424	$444	$467	$401
Fine papers *(US$/short ton)*					
—Uncoated fine paper-offset, 50 lb. rolls	**$634**	$692	$719	$756	$663
—Coated fine paper-No. 3 grade, 60 lb. rolls	**$795**	$767	$853	$958	$847

Source: *Cascades based on industry sources*

Recycled and virgin fibres are the primary raw materials used in the manufacture of the Company's products and represent the largest cost of production. List prices for these raw materials have fluctuated considerably since 1999 and are heavily influenced by economic conditions and foreign demand. The following table shows the historical movement of benchmark list prices for some of the grades of recycled paper and virgin pulp that are used in the manufacturing process:

Benchmark product	**2003**	2002	2001	2000	1999
Recycled paper *(US$/short ton)*					
Old corrugated containers	**$60**	$63	$34	$74	$65
Sorted office papers	**$110**	$99	$78	$141	$99
Virgin pulp *(US$/metric tonne)*					
Northern bleached softwood kraft–Eastern U.S.	**$553**	$491	$558	$685	$541

Source: *Cascades based on industry sources*



Consolidated selected annual information

Years ended December 31, 2003, 2002 and 2001 (in millions of dollars, except amounts per share)	**2003**	2002	2001
Net sales	**3,227**	3,375	3,023
OIBD	**250**	424	380
OIBD/net sales	**7.7%**	12.6%	12.6%
Operating income	**105**	285	248
Net earnings	**55**	169	109
Basic net earnings per common share	**$0.66**	$2.07	$1.33
Diluted net earnings per common share	**$0.66**	$2.05	$1.33
Total assets	**2,927**	2,959	2,733
Total long-term debt	**1,110**	1,095	1,103
Common shares, dividends paid (1)	**13**	10	9
per share	**$0.16**	$0.12	$0.12

(1) In 2003 and 2002, the Company paid its dividends on a quarterly basis

Year ended December 31, 2003 compared to year ended December 31, 2002

Net sales Net sales, which are sales less cost of delivery, decreased by $148 million, or 4%, to $3.2 billion for the year ended December 31, 2003, versus $3.4 billion for the same period in 2002.

Businesses acquired over the last two years contributed $155 million of net sales during the year ended December 31, 2003. The Tissue Group asset acquisition completed in June 2002 represented $59 million of the total contribution from new acquisitions. On October 1, 2003, the Company increased its participation in Dopaco, Inc. to 50%. This investment generated $55 million of net sales in 2003, as Dopaco's results were proportionally consolidated as of that date.

Net selling prices were weaker in each of the Company's operating sectors with the exception of the European Boxboard units, which benefited from an appreciation of the euro against the Canadian dollar in comparison to 2002. The depreciation of the U.S. dollar also had a direct impact on export prices and has contributed to reducing Canadian dollar prices in the domestic market, reflecting the reality of North American pricing for several of the Company's product lines. Overall business volumes, excluding volumes resulting from acquisitions completed in the last two years, were lower for most business sectors, reflecting reduced economic activity.

Operating income before depreciation and amortization The Company generated operating income before depreciation and amortization of $250 million for the year ended December 31, 2003, compared to $424 million for the same period in 2002, representing a 41% decrease. The operating margin decreased from 12.6% for the year ended December 31, 2002 to 7.7% for the corresponding period in 2003.

The most important factor accounting for the decrease in operating income before depreciation and amortization and margin is the volume and net realization price reduction experienced in most of the operating sectors. This is mainly due to difficult market conditions in North America and Europe and the strengthening of the Canadian dollar against the U.S. dollar, the average rate having increased by 12% in 2003. The monthly average list price for old corrugated containers (OCC), mostly used by our Containerboard Group, decreased by approximately 3% during the year. The monthly average list price for sorted office papers (SOP), primarily used by our Tissue and Boxboard Groups, was 11% higher, while the price of old newspapers (ONP), mainly used by our Boxboard Group and moulded pulp business, increased by 12% during the same period.

Natural gas costs were $8.13 per gigajoule during the year ended December 31, 2003, compared to $6.68 per gigajoule for the year ended December 31, 2002, representing a 22% increase. This increase in unit price affected operating income by approximately $22 million.

Cost of sales increased as a percentage of net sales because of increases in the cost of fibre and energy, which combined to lower net selling prices and sales volume. Also, due to generally lower shipments, the fixed portion of manufacturing costs was amortized over a smaller volume of units sold. For the same reasons, selling and administrative expenses increased slightly as a percentage of net sales.

Segmented analysis

Packaging Products Net sales of the Packaging Products segment decreased by $29 million, or 1%, amounting to $1.9 billion for the year ended December 31, 2003, compared to $2 billion for the same period in 2002. Market-related downtime in all operating sectors and a general decrease in price levels were only partially offset by the additional contribution of new business acquired during the year.

Net sales for the Boxboard Group amounted to $954 million for the year ended December 31, 2003, compared to $958 million for the same period in 2002. Excluding Dopaco, Inc.'s contribution of $55 million, net sales decreased by $59 million, or 6%. Over the course of this period, shipments by primary mills increased by approximately 2% in North America, but decreased by approximately 7% in Europe. Weaker demand resulted in lower volumes in Europe, especially in recycled grades. The appreciation of the euro compared to the Canadian dollar mitigated the impact of lower volumes, explaining an increase of $27 million in net sales during the year ended December 31, 2003, compared to the same period in 2002.

Net sales for the Containerboard Group decreased by $30 million, or 5%, amounting to $578 million for the year ended December 31, 2003, compared to $608 million for the same period in 2002. The acquisition of the Schenectady, NY converting plant in April 2003 contributed $15 million in additional net sales in 2003. Containerboard shipments were relatively unchanged over the period, while shipments of corrugated products increased by 5%. During the year ended December 31, 2003, average net selling prices for containerboard decreased by 9%, while corrugated products selling prices decreased by 7% compared to the same period in 2002.

In order to balance inventories and production levels to customer demand, the Company took approximately 80,000 short tons of market-related downtime in the Boxboard Group and 40,000 short tons in the Containerboard Group during 2003, representing 8% and 5% of their respective capacity.

Net sales for the Specialty Products Group increased by $3 million, or 1%, to $458 million for the year ended December 31, 2003, compared to $455 million for the same period in 2002. Within this Group, the moulded pulp products business saw its contribution decrease by $18 million as a result of the sale of its retail egg carton activity in the third quarter of 2002. The building materials products business experienced a $9 million reduction in its net sales contribution, as a result of weak market conditions and a three-month work stoppage in one of its plants. Net sales of the kraft paper and uncoated board products businesses were also impacted

by the appreciation of the Canadian dollar compared to the U.S. dollar. These decreases were offset by a positive contribution of the paper mill packaging and plastics products businesses, representing $6 million of additional net sales. The marketable de-inked pulp units increased their contribution by $22 million, which is mostly attributable to the Greenfield S.A.S. 50% joint venture, established during the first quarter of 2003. On March 28, 2003, our groundwood de-inked pulp mill located in Cap-de-la-Madeleine, Québec was shut down indefinitely due to difficult market conditions.

Operating income before depreciation and amortization for the Packaging Products segment was $174 million for the year ended December 31, 2003, compared to $248 million for the same period in 2002, a 30% decrease. Higher energy and waste paper costs combined with lower selling prices and the strengthening of the Canadian dollar contributed to reduce the Packaging Products Group's profit margins. The Boxboard Group was also affected by restructuring costs following a reduction of approximately 10% of its North American work force.

Packaging	Net sales (in millions of dollars)		OIBD (in millions of dollars)				Shipments (in thousands)		Average net selling price (in dollars/unit)	
	2003	2002	**2003**	**% net sales**	2002	% net sales	**2003**	2002	**2003**	2002
Boxboard										
Manufacturing– North America	**251**	259	**14**	5.6	28	10.8	**363 st**	356 st	**691**	728
Manufacturing–Europe	**417**	443	**23**	5.5	51	11.5	**493 st**	530 st	**846**	836
Converting	**284**	258	**15**	5.3	7	2.7				
Others and eliminations	**2**	(2)	**3**	–	2	–				
	954	958	**55**	5.8	88	9.2	**856 st**	886 st		
Containerboard (1)										
Manufacturing	**312**	346	**18**	5.8	47	13.6	**721 st**	724 st	**433**	478
Converting	**457**	468	**52**	11.4	50	10.7	**6,699 msf**	6,378 msf	**68**	73
Others and eliminations	**(191)**	(206)	**11**	–	9	–				
	578	608	**81**	14.0	106	17.4				
Specialty products	**458**	455	**38**	8.2	54	11.9				
Eliminations	**(38)**	(40)	**–**	–	–	–				
	1,952	1,981	**174**	8.9	248	12.5				

(1) The Company's containerboard business consists entirely of its 50% share of the results of Norampac Inc., a joint venture.

Tissue Group Net sales for the Tissue Group decreased by $38 million, or 6%, to $644 million for the year ended December 31, 2003, compared to $682 million for the same period in 2002. The assets acquired in the United States in June 2002 increased net sales by $59 million. Net selling prices were lower during the year ended December 31, 2003 in comparison to the corresponding period in 2002, as a result of the devaluation of the U.S. dollar relative to the Canadian dollar and a lower mix of converted products sold. The year ended December 31, 2003, excluding the June 2002 assets acquisition, saw a decrease of 6% in shipments. This resulted from increased competition following the start-up of new capacity in North America, largely in the away-from-home market. Market-related downtime during the year represented 16,000 short tons, or 3%, of total capacity.

Operating income before depreciation and amortization for the Tissue Group was $73 million for the year ended December 31, 2003, compared to $136 million a year ago, a 46% decrease. This Group was impacted by higher recycled paper and energy prices, a decrease in the average selling price and by expenses associated with the start-up of the assets acquired in June 2002. Selling, general and administrative expenses increased due to the restructuring of its U.S. sales force and the assets acquired in 2002.

Tissue papers	Net sales (in millions of dollars)		OIBD (in millions of dollars)				Shipments (in thousands)		Average net selling price (in dollars/unit)	
	2003	2002	2003	% net sales	2002	% net sales	2003	2002	2003	2002
Manufacturing	584	600	72	12.3	128	21.3	368 st	338 st	1,587	1,775
Distribution	83	106	1	1.2	8	7.5				
Eliminations	(23)	(24)	–	–	–	–				
	644	682	73	11.3	136	20.0				

Fine Papers Group Net sales for the Fine Papers Group decreased by $67 million, or 9%, to $703 million for the year ended December 31, 2003, compared to $770 million for the same period in 2002. The strengthening of the Canadian dollar against the U.S. dollar affected export and domestic prices for both coated and uncoated papers, with shipments decreasing by 11% when compared to 2002. On a non-inflation adjusted basis, prices for coated papers were close to a historical low and foreign competition, notably from Asia and Europe, remained strong. Market-related downtime during the year at both coated and uncoated mills represented 31,000 short tons, or 10% of total capacity. The distribution division, Cascades Resources, which contributed total sales of $409 million during the year, was able to maintain an adequate level of sales, as paper products represented a lower percentage of its product mix than in the past. Instead, the division focussed its efforts on graphic arts and industrial printing supplies.

Operating income before depreciation and amortization for the Fine Papers Group was $6 million for the year ended December 31, 2003, compared to $37 million for the same period in 2002. This operating segment experienced lower shipments and generally lower selling prices for both coated and uncoated papers, amplified by the depreciation of the U.S. dollar relative to the Canadian dollar. Operating income before depreciation and amortization was also impacted by higher fibre and energy prices. The rapid strengthening of the Canadian dollar against the U.S. dollar, combined with a difficult pricing environment, considerably reduced the operating profitability of the Thunder Bay coated paper mill. Management of the Fine Papers Group implemented a series of cost reduction initiatives at this mill at the end of 2003, including the reduction in its work force by approximately 8%.

Fine papers	Net sales (in millions of dollars)		OIBD (in millions of dollars)				Shipments (in thousands)		Average net selling price (in dollars/unit)	
	2003	2002	2003	% net sales	2002	% net sales	2003	2002	2003	2002
Manufacturing	357	416	(5)	(1.4)	27	6.5	279 st	313 st	1,280	1,329
Distribution	409	419	11	2.7	10	2.4				
Eliminations	(63)	(65)	–	–	–	–				
	703	770	6	0.8	37	4.8				

Depreciation and amortization Depreciation and amortization increased to $145 million for the year ended December 31, 2003, from $139 million in the corresponding period of 2002, primarily as a result of recent business acquisitions.

Operating income As a result of the above, operating income decreased 63% to $105 million compared to $285 million for the same period in 2002. Operating margin decreased from 8.4% in 2002 to 3.3% in 2003.

Interest expense Interest expense increased by $11 million, to $83 million for the year ended December 31, 2003 compared to $72 million for the same period in 2002. This increase is mostly attributable to the refinancing of substantially all of the Company's credit facilities, by substituting a portion of the Company's floating rate debt with US$450 million of senior notes bearing a fixed rate of 7.25%. The Company also completed an additional financing of US$100 million 7.25% senior notes at a price of 104.50%, for an effective interest rate of 6.61%. Norampac, a joint venture, also refinanced its long-term debt in 2003 by issuing US$250 million of senior notes bearing a fixed rate of 6.75%.

Foreign exchange gain on long-term debt The Company recorded a foreign exchange gain of $72 million on its own and its joint ventures' U.S. denominated debts, as the Canadian dollar strengthened throughout the year. This gain had no cash impact on the Company's liquidity.

Unusual losses (gains) For the year ended December 31, 2003, the Company recorded unusual losses of $22 million, compared to an unusual loss of $4 million for the year ended December 31, 2002. Unusual items for the year ended December 31, 2003, consisted of:

- a loss of $8 million reflecting the premium paid for the early redemption of senior notes issued by a subsidiary, and a loss of $3 million resulting from the write-off of the deferred financing costs associated with the long-term debt that were refinanced or redeemed;
- a loss of $7 million reflecting the Company's 50% share of the premium paid for the early redemption of CAN$100 million and US$150 million senior notes issued by Norampac, a joint venture company, and a loss of $3 million resulting in the write-off of the deferred financing costs associated with the long-term debt that were refinanced or redeemed; and
- a loss of $1 million resulting from the penalty paid on the early redemption of another fixed rate long-term debt.

Unusual items for the year ended December 31, 2002 consisted of:

- a gain of $1 million resulting from the dilution of an investment in a significantly influenced company;
- a loss of $11 million reflecting expenses related to business closures and a loss on a business disposal in the Packaging Products segment; and
- a gain of $6 million resulting from the reduction of a fine imposed in 1994 by the Court of First Instance of the European Communities.

Provision for income taxes The income tax provision for the year ended December 31, 2003 amounted to $14 million, representing an effective tax rate of 19%. Excluding the impact of unusual losses and the foreign exchange gain on U.S.-denominated debt, the tax rate would have been 57%. This effective rate is higher than the statutory rate mainly due to the impact of operating losses incurred by certain subsidiaries during the year ended December 31, 2003, for which tax benefits were not recognized, as well as an increase in the tax rate announced by the province of Ontario in the fourth quarter of 2003.

Net earnings As a result of the foregoing factors, net earnings decreased by $114 million, or 67%, to $55 million, or $0.66 per share, for the year ended December 31, 2003, versus $169 million, or $2.07 per share, for the same period in 2002. Results for the year ended December 31, 2003 include unusual after-tax losses of $19 million, or $0.23 per share, and an after-tax foreign exchange gain on U.S.-denominated debt of $63 million, or $0.77 per share. Results for the year ended December 31, 2002 include unusual after-tax gains of $16 million, or $0.20 per share, including the Company's share of a gain realized by Boralex Inc., an affiliated company.

Liquidity and capital resources

Cash flows from operations Cash flows from operations totalled $140 million for the year ended December 31, 2003, compared to $325 million for the same period in 2002. This reduction is primarily due to a decrease in profitability and uses of liquidity to fund working capital requirements.

Changes in non-cash working capital components amounted to a use of funds of $26 million for the year ended December 31, 2003. Difficult economic conditions combined with a slowdown in business activities constitute the main reasons for this increase in working capital. The Company also increased its recycled papers and pulp inventory to manage the pricing volatility of these raw materials. One of our subsidiaries also ended its accounts receivable securitization program during the year, accounting for approximately $11 million of the increase.

Investment activities For the year ended December 31, 2003, investment activities required total cash resources of $166 million. The Company invested $122 million in property, plant and equipment. The major investments in property, plant and equipment were: $5 million to upgrade the Boxboard Group's machine #3 in Larochette, France, part of a €10-million project to be completed in 2004; $5 million, representing our share of Norampac's capital investment in a flexo press in Vaughan, a bark boiler in Cabano, and a wastewater treatment upgrade in Mississauga; $5 million to install a new Yankee dryer in Kingsey Falls, as well as an upgrade to the Tissue Group's Oregon paper machine.

The Company also invested $13 million in other assets, namely $3 million to increase its participation in Boralex Inc., an affiliated company, from 40% to 43%; and an amount of $3 million towards an advance to Scierie P.H. Lemay ltée, prior to its acquisition.

The Company also invested $31 million in new businesses during the year:

- $1 million to acquire a 50% share of a French de-inked pulp mill in the Specialty Products Group;
- $10 million (US$7 million), representing its 50% share of the cash portion of a U.S. corrugated container plant acquired by Norampac, a joint venture company;
- $17 million (US$12 million) to increase the Company's participation, from 40% to 50%, in Dopaco, Inc., a North American leader in packaging for the quick-service restaurant industry; and
- $3 million to complete the acquisition of all outstanding shares in Scierie P.H. Lemay ltée, a Canadian sawmill and a planing plant. Prior to this transaction, the Company held a 50% interest in this company.

Financing activities On February 5, 2003, the Company completed a series of transactions to substantially refinance all of its credit facilities, excluding those of its joint ventures. First, the Company secured a new four-year revolving credit facility for CAN$500 million. The obligations under this facility are secured by all inventory and receivables of the Company and its North American subsidiaries, excluding its joint ventures, and by the property, plant and equipment of three of its mills. In addition, the Company issued new unsecured 7.25% senior notes, maturing in 2013, for an aggregate amount of US$450 million. The net proceeds of these two transactions were used to repay existing credit facilities for an amount of approximately $695 million. The Company also redeemed US$125 million 8.375% senior notes, due in 2007, issued by a subsidiary, for a total consideration of $192 million. Finally, the Company completed an additional financing of US$100 million 7.25% senior notes, maturing in 2013, at a price of 104.50%, for an effective interest rate of 6.61%. The proceeds of this transaction have been used to reduce indebtedness under the revolving credit facility of the Company. Costs associated with these transactions totalled $24.6 million and are amortized over the term of the debt.

On May 28, 2003, Norampac, a joint venture of the Company, completed a series of transactions to refinance all of its existing credit facilities. Norampac secured a new five-year revolving credit facility of CAN$350 million. Its obligations under this new revolving credit facility are secured by all inventory and receivables of Norampac and its North American subsidiaries, and by the property, plant and equipment of two of its mills and three of its converting plants. In addition, Norampac issued new senior unsecured notes for an aggregate amount of US$250 million. These notes bear a 6.75% coupon and will mature in 2013. The net proceeds of these two transactions were used to repay the existing credit facilities and to redeem both of its US$150 million 9.50% and CAN$100 million 9.375% senior notes, due in 2008.

In 2003, the Company purchased the remaining 2,011,337 Class A preferred shares of a subsidiary for a consideration of $51 million.

During the year ended December 31, 2003, the Company repurchased 275,000 of its common shares for approximately $4 million on the open market, in accordance with its normal course issuer bid. In addition, the Company redeemed 4,300,000 class B preferred shares of a subsidiary, which were convertible into common shares of the Company, for an aggregate redemption amount of $16 million.

Considering these transactions and the dividends paid during the year ended December 31, 2003 in the amount of $14 million, financing activities generated $18 million of liquidity during the year.

Consolidated financial position as at December 31, 2003

The Company's working capital stood at $508 million as at December 31, 2003, at a ratio of 1.99:1. At the end of 2002, the working capital stood at $386 million at a ratio of 1.61:1. The Company's refinancing, which substituted a portion of short-term debt with longer maturity terms, explains the improvement in the working capital ratio.

Long-term debt, including the current portion, remained stable at $1.1 billion at the end of 2003 and 2002. The Company had $329 million available under its new $500-million revolving credit facility at the end of the year. The Company's share of its joint ventures' available liquidity was $181 million as at December 31, 2003.

Despite net earnings generated during 2003, shareholders' equity declined by $9 million to $1.1 billion, or $12.93 per share, due to the decrease of the cumulative translation adjustments resulting from a weaker U.S. dollar. The net funded debt to total capitalization ratio decreased from 46.8% as at December 31, 2002 to 45.5% as at December 31, 2003.

The Company's future debt service requirements will consist primarily of interest expense on its outstanding debt. The Company will have limited amortization requirements to service its debt that has not been refinanced. The Company believes that these refinancings, completed in 2003, have resulted in a simpler capital structure, as it extended the maturities of the debt, and provided improved liquidity and flexibility to meet future capital requirements.

The liquidity available under the credit facilities of the Company and its joint ventures, along with the cash flow generated by the operating activities, will provide the Company sufficient funds to meet its financial commitments and capital expenditure program, which has been budgeted to approximately $100 million for 2004. This budgeted amount may be revised during the course of 2004, depending on the cash flow generated by operations.

Capital stock information

As at December 31, 2003, the capital stock issued and outstanding consisted of 81,731,387 common shares (81,826,272 as at December 31, 2002). As at December 31, 2003, 1,494,942 stock options were issued and outstanding.

Contractual obligations and other commitments

The Company's principal contractual obligations and commercial commitments relate to outstanding debt, limited amortization requirements under existing credit lines that were not refinanced, operating leases, capital leases and purchase obligations for its normal business operations. The following table summarizes these obligations as at December 31, 2003:

			Payment due by period (in millions of dollars)		
Contractual obligations	Total	Year 2004	Years 2005 and 2006	Years 2007 and 2008	Thereafter
Long-term debt	1,097	11	15	190	881
Capital lease	14	8	4	2	–
Operating lease	164	35	56	37	36
Purchase obligations	219	112	72	19	16
Total contractual obligations	1,494	166	147	248	933

Transactions with related parties

The Company has also entered into various agreements with its joint ventures, significantly influenced companies and entities controlled by one or more directors for the supply of raw materials, including recycled paper, virgin pulp and energy, supply of unconverted and converted products, sale and lease of equipment and other agreements in the normal course of business. The aggregate amount of sales from the Company to its joint ventures and other affiliates was $96 million and $100 million for 2002 and 2003, respectively. The aggregate amount of sales from the joint ventures and other affiliates to the Company was $61 million and $67 million for 2002 and 2003, respectively. The aggregate amount of sales from entities controlled by one or more of our directors to us was $5 million and $7 million for 2002 and 2003, respectively.

Off-balance sheet arrangements

In the normal course of business, the Company finances certain of its activities off-balance sheet through leases. On an ongoing basis, we enter into operating leases for buildings and equipment. Minimum future rental payments under these operating leases, determined as at December 31, 2003, are included in the contractual obligations table above.

Critical accounting policies

Some of the Company's accounting policies require significant estimates and assumptions about future events that affect the amounts reported in the financial statements and the accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of management's judgment. Actual results could differ from those estimates, and any such differences may be material to the Company's financial statements.

Valuation of identifiable intangible assets and goodwill Business acquisitions are accounted for under the purchase method of accounting. The total cost of an acquisition is allocated to the underlying net assets, based on their respective estimated fair values. As part of this allocation process, the Company must identify and attribute values and estimated lives to the intangible assets acquired. While an expert may be retained to assist the Company with these matters, these types of determinations involve considerable judgment and often involve the use of estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates and asset lives. These determinations affect the amount of amortization expense recognized in future periods. The Company reviews the carrying values of all identifiable intangible assets and goodwill when certain conditions arise to determine whether any impairment has occurred.

Effective January 1, 2002, the Company adopted the provisions of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3062, "Goodwill and Other Intangible Assets." Accordingly, identifiable intangible assets with indefinite useful lives and goodwill are now tested by comparing carrying amounts to their fair values at least annually or when the conditions referred to above arise. The determination of fair value involves significant management judgment. Impairments in the carrying amounts of identifiable intangible assets with indefinite lives and goodwill are required to be expensed. Because the valuation of identifiable intangible assets and goodwill requires significant estimates and judgment about future performance and fair value, our future results could be affected if our current estimates of future performance and fair value change.

Income taxes The Company is required to estimate the income taxes in each of the jurisdictions in which it operates. This includes estimating a value for existing net operating losses based on the Company's assessment of its ability to utilize them against future taxable income before they expire. If the Company's assessment of its ability to use the net operating losses proves inaccurate in the future, this would increase or decrease the income tax expense, and consequently affect the Company's net earnings in the relevant year.

Stock-based compensation Stock options granted to employees after January 1, 2002 are accounted for under the fair value method, which consists of recording expenses to earnings when stock options are issued. The fair value of stock options is calculated with a financial model involving the use of various assumptions, such as the risk-free interest rate, the expected volatility of the underlying stock, the expected life of the stock options and the expected dividend yield. The Company uses the Black-Scholes option-pricing model, which was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option-pricing models require the input of highly subjective assumptions, including the expected price volatility. The Company uses expected volatility rates, which are based on historical volatility rates trended into future years. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore could have an impact on the net earnings.

Pension and post-retirement benefit costs Pension and post-retirement benefit costs are developed from actuarial valuations. Inherent in these valuations are key assumptions provided by the Company to actuaries, including discount rates, expected returns on plan assets, rates of compensation increases and medical cost inflation. In selecting the rates and returns, the Company is required to consider current market conditions, including changes in interest rates. Material changes in pension and post-retirement benefit costs may occur in the future, resulting from fluctuations in headcount, in addition to changes in the assumptions.

Environmental cleanup costs The Company expenses environmental expenditures related to existing conditions caused by past or current operations and from which no future benefit is discernible. The Company's estimated environmental remediation costs are based upon an evaluation of currently available facts with respect to each individual site, including the results of environmental studies and testing, and considering existing technology, applicable laws and regulations, and prior experience in remediation of contaminated sites. Expenditures that extend the life of the related property, or mitigate or prevent future environmental contamination, are capitalized. The Company determines its liability on a site-by-site basis and records a liability at the time when it is probable and can be reasonably estimated. The contingencies take into account the anticipated participation of other potentially responsible parties in those instances where it is probable that such parties are legally responsible and financially capable of paying their respective shares of the relevant costs. Actual costs to be incurred in future periods at the identified sites may vary from the estimates, given the inherent uncertainties in evaluating environmental exposures. Future information and developments may require the Company to reassess the expected impact of these environmental matters.

Collectibility of accounts receivable In order to record its accounts receivable at their net realizable value, the Company must assess their collectibility. A considerable amount of judgment is required in order to make this assessment, including a review of the aging of its receivables and the current creditworthiness of each customer. The Company has recorded allowances for receivables that it feels are uncollectible. However, if the financial condition of the Company's customers were to deteriorate, their ability to make required payments may become further impaired, and increases in these allowances would be required.

Impairment of tangible assets The Company assesses the value of its tangible assets when events or changes in circumstances indicate that a permanent impairment could exist. This is accomplished by determining whether projected undiscounted future cash flows from operations exceed the net carrying amount of the asset as of the assessment date. Estimates of future cash flows and fair values require judgment and may change.

Introduction of new accounting policies in 2003

Guarantees On January 1, 2003, the Company adopted the new guideline of the Canadian Institute of Chartered Accountants regarding the disclosure of guarantees. Under this new guideline, entities are required to disclose key information about certain types of guarantee contracts that require payments contingent on specified types of future events. Disclosures include the nature of the guarantee, how it arose, the events or circumstances that would trigger performance under the guarantee, maximum potential future payments under the guarantee, and the carrying amount of the related liability and information about recourse or collateral.

Long-lived assets and discontinued operations The Company adopted the new guideline of the Canadian Institute of Chartered Accountants regarding the disposal of long-lived assets and discontinued operations, which applies to disposal activities initiated on or after May 1, 2003. This new section sets standards for recognition, measurement, presentation and disclosure of the disposal of long-lived assets. It also sets standards for the presentation and disclosure of discontinued operations.

New accounting policies not yet adopted

Hedging relationships In November 2001, the CICA issued Accounting Guideline AcG-13, "Hedging Relationships." Subsequently, the AcSB postponed the application of AcG-13 to fiscal years beginning on or after July 1, 2003. AcG-13 addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. In addition, it deals with the discontinuance of hedge accounting and establishes conditions for applying hedge accounting. Under the new guideline, the Company is required to document its hedging relationships and explicitly demonstrate that the hedges are sufficiently effective in order to continue accrual accounting for positions hedged with derivatives. Otherwise, the derivative instruments will need to be marked to market in the current year's income statement. On January 1, 2004, the Company adopted the recommendations of AcG-13 (refer to note 2 (f) of the consolidated financial statements).

Asset retirement obligations In March 2003, the CICA issued Section 3110, "Asset Retirement Obligations," which will be implemented by the Company on January 1, 2004. This standard requires that the fair value of a liability for an asset-retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The application of this standard will not have any significant impact on the financial position or results of operation of the Company.

Variable interest entities In June 2003, the CICA issued Accounting Guideline AcG-15, "Consolidation of variable interest entities." The new guideline requires companies to identify variable interest entities in which they have an interest to determine whether they are the primary beneficiary of such entities and, if so, to consolidate them. A variable interest entity is defined as an entity in which the equity is not sufficient to permit that entity to finance its activities without external support, or the equity investors lack either voting control, and the obligation to absorb future losses, or the right to receive future returns. Recently, the CICA announced the deferral of the effective date of AcG-15. Previously, AcG-15 was to be effective for interim and annual periods starting on or after January 1, 2004. It is now effective for interim and annual periods beginning on or after November 1, 2004. Early adoption is still permitted. The application of this standard will not have any impact on the financial position or results of operations of the Company.

Generally accepted accounting principles In July 2003, the CICA issued Section 1100, "Generally Accepted Accounting Principles," and Section 1400, "General Standards for Financial Statement Presentation," which are effective for fiscal years beginning on or after October 1, 2003. Section 1100 clarifies the relative authority of various accounting pronouncements and other sources of guidance within GAAP, whereas Section 1400 clarifies what constitutes a fair presentation in accordance with GAAP. In addition, under Section 1100, industry practice no longer plays a role in establishing GAAP. As a result, the cost of delivery, which had been subtracted from sales in accordance with industry practice, will no longer be subtracted from sales, but rather will be included in cost of goods sold.

Environmental issues

The Company is subject to environmental laws and regulations imposed by the various governmental and regulatory authorities in all the countries where it operates. The Company is also subject to the *U.S. Federal Comprehensive Environmental Response, Compensation and Liability Act,* or CERCLA, as well as other applicable legislation in the United States, Canada and Europe that holds companies accountable for the investigation and remediation of hazardous substances.

The Company is in compliance with all applicable environmental legislation or regulations. However, ongoing capital and operating expenses are expected to be incurred to achieve and maintain compliance with applicable environmental requirements.

Quantitative and qualitative disclosures regarding market risk

The Company is exposed to certain market risks as part of its ongoing business operations, including risks from changes in selling prices for its principal products, costs of raw materials, interest rates and foreign currency exchange rates, all of which impact the Company's financial condition, results of operations and cash flows. The Company manages its exposure to these and other market risks through regular operating and financing activities and, on a limited basis, through the use of derivative financial instruments. The Company uses these derivative financial instruments as risk management tools and not for speculative investment purposes.

The following chart provides a quantitative illustration of the impact on the Company's annual operating income from possible changes in the prices of its principal products, the cost of raw materials and energy, and the exchange rate of the U.S. dollar. This is based on 2003 shipments, as adjusted for an expected increase in shipments as a result of recent acquisitions, assuming for each price change that all other variables remain constant. To reduce the Company's vulnerability to selling price fluctuations, some of our operations have implemented risk management programs. The Company uses financial hedges on the selling prices of certain finished products or on the purchase cost of certain raw materials to cover part of the risk related to price fluctuations. Also, from time to time, the Company negotiates term contracts to protect itself against increases in energy prices, including natural gas, for periods of up to 24 months. In addition, by selling marketable pulp in the open market, the Company is able to limit its vulnerability to price fluctuations for this raw material.

Operating income sensitivity

(in millions of dollars)	Operating income impact
5% increase in the selling prices of the Company's primary mills	93
25% increase in the cost of recycled paper	(48)
5% increase in the cost of commercial pulp	(8)
US$0.10/mmbtu increase in the cost of natural gas	(2)
US$0.01/CAN$1.00 increase in the US$ on the Company's export sales net of US$ purchases	(5)

(a) For purposes of this analysis, we have assumed an exchange rate of US$0.75 to CAN$1.00.
(b) This table does not take into account any risk management programs that the Company could put into effect at any given moment.

Interest rate risk The Company's principal interest rate risks relate to outstanding debt obligations. As of December 31, 2003, approximately 18% of its long-term debt accrued interest at floating rates. A 1% change in the interest rates applicable to its actual variable-rate debt would have a $1.9 million effect on interest expense.

Foreign currency risk The Company is exposed to foreign currency risks that arise from normal business operations. These risks include the translation of local currency balances of our foreign subsidiaries, intercompany loans with foreign subsidiaries and transactions denominated in foreign currencies. A significant portion of the Company's debt is denominated in foreign currencies and so is exposed to foreign currency risks related to interest on this debt and its repayment. The Company is also exposed to exchange rate risks when its sales are in foreign currencies and its costs are not. Fluctuations in exchange rates may adversely affect its ability to compete with non-local producers, as well as to export its products. The Company's objective is to minimize its exposure to these risks through its normal operating activities and, where appropriate, through foreign currency forward contracts. Our policy is to negotiate forward exchange contracts that can cover up to 50% of the net exposure to currency fluctuations for periods of 12 to 18 months. In 2003, approximately 24% of the Company's total sales from its Canadian operations were made in the United States.

Some of the Company's Canadian subsidiaries and joint ventures have entered into contracts to sell forward U.S. dollars in exchange for Canadian dollars. As of December 31, 2003, these subsidiaries and joint ventures held forward exchange contracts with a notional amount of approximately $130 million, maturing from January 2004 to June 2005, at a weighted average exchange rate of $1.3732 to US$1.00. The fair value of these instruments represented an unrealized gain of $6.8 million as at December 31, 2003. The European subsidiaries have also entered into forward exchange contracts, maturing in December 2004, to hedge currency risks resulting from sales and purchases in European currencies and U.S. and Canadian dollars. The fair value of these instruments represented an unrealized gain of $0.1 million as at December 31, 2003, on a notional amount of approximately $20 million.

Credit risks The Company is exposed to credit risk on the accounts receivable from its customers. In order to reduce this risk, the Company's credit policies include an analysis of the financial position of its customers and a regular review of their credit limits. The Company believes there is no particular concentration of credit risks, due to the geographic diversity of its customers and its procedures for the management of commercial risks. Derivative financial instruments include an element of credit risk, should the counterparty be unable to meet its obligations. The Company reduces this risk by dealing with creditworthy financial institutions.

Price risk The Company has also entered into cash-settled swap contracts with counterparties, maturing from 2004 to 2007, under which the Company sets the price on notional quantities of sorted office papers, old corrugated containers, bleached softwood kraft pulp, electricity, natural gas, 42-lb. kraft linerboard and 26-lb. semichemical corrugating medium. Gains and losses arising from these contracts as at December 31, 2003 represented a net unrealized gain of $4.7 million.

Outlook for 2004

The Company anticipates the coming year to be challenging, as we expect to be faced with a difficult business environment in North America and abroad. The current fragile economic environment will, as in 2003, continue to impact the markets, and only a general economic recovery will help the Company implement sustainable price increases.

After experiencing, over the course of the last few years, sustained growth in most of its operating sectors, the Company sees the upcoming year as a year of consolidation. As an opportunistic acquirer of assets, the Company will continue to monitor good acquisition opportunities and it may temporarily increase its indebtedness ratio to make such acquisitions, as long as the Company expects the acquisitions to have a positive impact on earnings and cash flow over a relatively short period. The Company's long-term stated objective, however, is still to keep its net funded debt to total capitalization ratio under 50%.

The Boxboard Group will continue to implement its cost reduction programs while focussing on customer service and improving quality. Further consolidation in the North American boxboard market is expected in 2004.

Throughout 2004, the Containerboard Group should continue to curtail its production levels to meet customer demand. The Group will continue to seek acquisition opportunities, mostly for converting assets, in the south or midwest of the United States. The Containerboard Group may feel the impact of increased prices of OCC, an important commodity used by recycled paper mills. However, any uptrend in OCC prices will likely be matched by subsequent selling price increases. At the end of the year, this group had an excellent physical hedge against any sharp OCC price increases through above-average physical inventories.

The Specialty Products Group will further explore acquisition opportunities in the paper recovery sector, and continue its strategic plan of reducing its dependence on commodity markets.

The Tissue Group will continue to integrate the assets acquired in recent years and further decrease its production costs. The intent is to progressively start up the newly installed converting lines to respond to market demand.

The Fine Papers Group will continue to operate in a low pricing environment for both coated and uncoated papers, driven mostly by Asian and European imports. Its distribution business, which accounts for more than 50% of the group's net sales, will continue to focus on its product diversification strategy, maintaining its tight inventory control while expanding its product offering with non-paper supplies.

The Company expects recycled fibre prices to remain quite volatile in 2004. Recent shutdowns of recycled-based capacity in North America have reduced the local demand for waste papers, but imports from new capacity coming on line in Asia may contribute to North American price increases. Whether the Company actually sees an increase in waste paper prices will depend on a number of factors, such as overseas transportation costs, changes in the U.S. dollar exchange rate, and the level of recovery rates in different countries, which tend to be price-sensitive. The Company feels that the historical correlation between the price of waste paper and those of the associated finished goods will hold, and both should continue to move in tandem, thus mitigating the impact on its profitability margins.

Quarterly results

(in millions of dollars, except amounts per share) (unaudited)	2003					2002				
	March 31	June 30	Sept. 30	Dec. 31	Total	March 31	June 30	Sept. 30	Dec. 31	Total
Net sales	**840**	**813**	**792**	**782**	**3,227**	801	857	874	843	3,375
OIBD	**71**	**64**	**66**	**49**	**250**	105	109	110	100	424
Operating income	**35**	**29**	**31**	**10**	**105**	71	75	74	65	285
Net earnings	**16**	**29**	**4**	**6**	**55**	55	40	34	40	169
basic per share	**$0.19**	**$0.36**	**$0.04**	**$0.07**	**$0.66**	$0.67	$0.50	$0.41	$0.49	$2.07
diluted per share	**$0.19**	**$0.36**	**$0.04**	**$0.07**	**$0.66**	$0.67	$0.49	$0.40	$0.49	$2.05

Comments on the results of the fourth quarter of 2003

During the fourth quarter of 2003, difficult economic conditions combined with price and volume decreases experienced in most of the operating sectors, largely reflecting difficult market conditions in North America and Europe, led to the lowest quarterly operating income of the year. The devaluation of the U.S. dollar continued to impact the Company's profitability margins. On October 1, 2003, the Company increased its participation in Dopaco, Inc., proportionately consolidating their results as of that date.

Supplemental information on non-GAAP measures

Operating income before depreciation and amortization is not a measure of performance under Canadian GAAP. The Company includes operating income before depreciation and amortization because it is the measure used by management to assess the operating and financial performance of the Company's operating segments. As well, the Company believes that operating income before depreciation and amortization provides an additional measure often used by investors to assess a company's operating performance and its ability to meet debt service requirements. However, operating income before depreciation and amortization does not represent, and should not be used, as a substitute for, net earnings or cash flows from operations as determined in accordance with Canadian GAAP and operating income before depreciation and amortization is not necessarily an indication of whether cash flow will be sufficient to fund our cash requirements. In addition, our definition of operating income before depreciation and amortization may differ from that of other companies.

Net earnings, which is a performance measure defined by Canadian GAAP, is reconciled below to operating income before depreciation and amortization:

For the years ended December 31	2003	2002	2001
Net earnings	**55**	169	109
Share of results attributed to non-controlling interests	–	1	–
Share of earnings of significantly influenced companies	**3**	(22)	(3)
Provision for income taxes	**14**	61	49
Unusual losses (gains)	**22**	4	(7)
Foreign exchange loss (gain) on long-term debt	**(72)**	–	14
Interest expense	**83**	72	86
Operating income	**105**	285	248
Depreciation and amortization	**145**	139	132
Operating income before depreciation and amortization	**250**	424	380

Additional information

Additional information relating to the Company, including the AIF, is available on SEDAR at www.sedar.com.

Management's Report

The consolidated financial statements for the years ended December 31, 2003 and 2002, are the responsibility of the management of Cascades Inc., and have been reviewed by the Audit Committee and approved by the Board of Directors. They were prepared in accordance with accounting principles generally accepted in Canada and include some amounts, which are based on management's estimates and judgement. Management is also responsible for all other information included in this Annual Report and for ensuring that this information is consistent with the Company's consolidated financial statements and business activities.

The Management of the Company is responsible for the design, establishment and maintenance of appropriate internal controls and procedures for financial reporting, to ensure that financial statements for external purposes are fairly presented in conformity with generally accepted accounting principles. Such internal controls systems are designed to provide reasonable assurance on the reliability of the financial information and the safeguarding of assets.

External and internal auditors have free and independent access to the Audit Committee, which is comprised of outside independent directors. The Audit Committee, which meets regularly throughout the year with members of the financial management and the external and internal auditors, reviews the consolidated financial statements and recommends their approval to the Board of Directors.

The financial statements have been audited by PricewaterhouseCoopers LLP, whose report is provided below.

Alain Lemaire
President and Chief Executive Officer
Kingsey Falls, Canada
February 25, 2004

André Belzile
Vice-President and Chief Financial Officer
Kingsey Falls, Canada
February 25, 2004

Auditors' Report to the Shareholders of Cascades Inc.

We have audited the consolidated balance sheets of Cascades Inc. (the "Company") as at December 31; 2003 and 2002 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three-year period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2003 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Montréal, Canada
February 25, 2004

Consolidated Balance Sheets

As at December 31, 2003 and 2002
(in millions of Canadian dollars)

	Note	2003	2002
Assets			
Current assets			
Cash and cash equivalents		27	38
Accounts receivable		494	500
Inventories	4	501	478
		1,022	1,016
Property, plant and equipment	5	1,636	1,604
Other assets	6	186	260
Goodwill	6	83	79
		2,927	2,959
Liabilities and Shareholders' Equity			
Current liabilities			
Bank loans and advances		43	100
Accounts payable and accrued liabilities		453	483
Current portion of long-term debt	7	18	47
		514	630
Long-term debt	7	1,092	1,048
Other liabilities	8	265	216
Shareholders' equity			
Capital stock	9	264	268
Retained earnings		778	749
Cumulative translation adjustments		14	48
		1,056	1,065
		2,927	2,959

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors

Bernard Lemaire
Director

Robert Chevrier
Director

Consolidated Statements of Retained Earnings

For the three-year period ended December 31, 2003
(in millions of Canadian dollars)

	Note	2003	2002	2001
Balance—Beginning of year				
As previously reported		749	615	505
Changes in accounting policies	2	–	(21)	(10)
As restated		749	594	495
Net earnings for the year		55	169	109
Dividends on common shares		(13)	(10)	(9)
Dividends on preferred shares		(1)	(1)	(1)
Excess of common share redemption price on their paid-up capital		(2)	(3)	–
Excess of redemption price of preferred shares of a subsidiary on their recorded capital	9(b)	(10)	–	–
Balance—End of year		778	749	594

Consolidated Statements of Earnings

For the three-year period ended December 31, 2003
(in millions of Canadian dollars, except per share amounts)

	Note	2003	2002	2001
Sales		3,449	3,591	3,217
Cost of delivery		222	216	194
Net sales		3,227	3,375	3,023
Cost of sales and expenses				
Cost of sales		2,621	2,592	2,325
Selling and administrative expenses		356	359	318
Depreciation and amortization		145	139	132
		3,122	3,090	2,775
Operating income		105	285	248
Interest expense		83	72	86
Foreign exchange loss (gain) on long-term debt		(72)	–	14
Unusual losses (gains)	11	22	4	(7)
		72	209	155
Provision for income taxes	12	14	61	49
Share of results of significantly influenced companies	10	3	(22)	(3)
Share of earnings attributed to non-controlling interests		–	1	–
Net earnings for the year		55	169	109
Basic net earnings per common share	9(e)	0.66	2.07	1.33
Diluted net earnings per common share	9(e)	0.66	2.05	1.33
Weighted average number of common shares outstanding during the year		81,720,379	81,482,507	80,927,164

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the three-year period ended December 31, 2003 (in millions of Canadian dollars)	Note	2003	2002	2001
Operating activities				
Net earnings for the year		55	169	109
Adjustments for				
Depreciation and amortization		145	139	132
Foreign exchange loss (gain) on long-term debt		(72)	–	14
Unusual losses (gains)		22	4	(3)
Future income taxes		(1)	13	2
Share of results of significantly influenced companies		3	(22)	(3)
Share of earnings attributed to non-controlling interests		–	1	–
Others		14	9	(2)
		166	313	249
Changes in non-cash working capital components	13(a)	(26)	12	65
		140	325	314
Investing activities				
Purchases of property, plant and equipment		(122)	(129)	(116)
Other assets		(13)	(21)	(2)
Business acquisitions, net of cash acquired	3(a)	(31)	(131)	(148)
Business disposal, net of cash disposed	3(b)	–	4	–
		(166)	(277)	(266)
Financing activities				
Bank loans and advances		(61)	–	(16)
Issuance of senior notes, net of related expenses		974	–	–
Change in revolving credit facilities, net of related expenses		155	–	–
Increase in other long-term debt		52	89	53
Payments of other long-term debt		(1,054)	(115)	(82)
Premium paid on redemption of long-term debt		(16)	–	–
Non-controlling interests		–	(7)	(5)
Net proceeds from issuances of shares		2	3	–
Redemption of common shares and preferred shares of a subsidiary		(20)	(3)	–
Dividends		(14)	(11)	(10)
		18	(44)	(60)
Change in cash and cash equivalents during the year		(8)	4	(12)
Translation adjustments on cash and cash equivalents		(3)	3	2
Cash and cash equivalents—Beginning of year		38	31	41
Cash and cash equivalents—End of year		27	38	31

The accompanying notes are an integral part of these consolidated financial statements.

For the three-year period ended December 31, 2003
(in millions of Canadian dollars)

The Company's operations are organized into and managed by three segments: packaging products, tissue papers and fine papers. The classification of these operating segments is based on the primary operations of the main subsidiaries and joint ventures of the Company.

The Company analyzes the performance of its operating segments based on their operating income before depreciation and amortization, which is not a measure of performance under Canadian generally accepted accounting principles ("Canadian GAAP"); however, chief operating decision-makers use this performance measure for assessing the operating performance of their reportable segments. Earnings for each segment are prepared on the same basis as those of the Company. Intersegment operations are recorded on the same basis as sales to third parties, which is at fair market value.

Net sales of the Company presented by the reportable segments are as follows:

Net sales

	2003	2002	2001
Packaging products			
Boxboard			
Manufacturing	668	702	660
Converting	284	258	225
Eliminations and others	2	(2)	(31)
	954	958	854
Containerboard [1]			
Manufacturing	312	346	347
Converting	457	468	400
Eliminations and others	(191)	(206)	(196)
	578	608	551
Specialty products	458	455	444
Eliminations	(38)	(40)	(24)
	1,952	1,981	1,825
Tissue papers			
Manufacturing	584	600	425
Distribution	83	106	105
Eliminations	(23)	(24)	(19)
	644	682	511
Fine papers			
Manufacturing	357	416	418
Distribution	409	419	405
Eliminations	(63)	(65)	(77)
	703	770	746
Eliminations	(72)	(58)	(59)
Total	3,227	3,375	3,023

(1) The Company's containerboard sub-segment consists entirely of its interest in Norampac Inc. ("Norampac"), a joint venture.

For the three-year period ended December 31, 2003
(in millions of Canadian dollars)

The operating income before depreciation and amortization and the depreciation and amortization of the Company presented by the reportable segments are as follows:

Operating income before depreciation and amortization and operating income

	2003	2002	2001
Packaging products			
Boxboard			
Manufacturing	37	79	80
Converting	15	7	8
Others	3	2	(1)
	55	88	87
Containerboard [(1)]			
Manufacturing	18	47	67
Converting	52	50	38
Others	11	9	7
	81	106	112
Specialty products	38	54	49
	174	248	248
Tissue papers			
Manufacturing	72	128	86
Distribution	1	8	10
	73	136	96
Fine papers			
Manufacturing	(5)	27	18
Distribution	11	10	13
	6	37	31
Corporate	(3)	3	5
Operating income before depreciation and amortization	250	424	380
Depreciation and amortization			
Boxboard	(49)	(49)	(47)
Containerboard	(37)	(37)	(35)
Specialty products	(21)	(19)	(20)
Tissue papers	(36)	(32)	(28)
Fine papers	(11)	(11)	(11)
Corporate and eliminations	9	9	9
	(145)	(139)	(132)
Operating income	105	285	248

(1) The Company's containerboard sub-segment consists entirely of its interest in Norampac, a joint venture.

For the three-year period ended December 31, 2003
(in millions of Canadian dollars)

Purchases of property, plant and equipment of the Company presented by the reportable segments are as follows:

Purchases of property, plant and equipment

	2003	2002	2001
Packaging products			
Boxboard			
Manufacturing	19	18	17
Converting	10	7	5
Others	5	3	1
	34	28	23
Containerboard[1]			
Manufacturing	14	18	21
Converting	13	10	26
Others	2	–	–
	29	28	47
Specialty products	19	20	20
	82	76	90
Tissue papers			
Manufacturing	25	31	16
Distribution	–	–	1
	25	31	17
Fine papers			
Manufacturing	7	16	10
Distribution	1	1	1
Others	2	–	–
	10	17	11
Corporate	5	5	4
Total	122	129	122

(1) The Company's containerboard sub-segment consists entirely of its interest in Norampac, a joint venture.

For the three-year period ended December 31, 2003
(in millions of Canadian dollars)

Identifiable assets and goodwill of the Company presented by the reportable segments are as follows:

Identifiable assets

	2003	2002
Packaging products		
Boxboard	946	829
Containerboard [1]	717	746
Specialty products	390	389
	2,053	1,964
Tissue papers	546	609
Fine papers	363	371
Corporate	114	84
Consolidation revaluation [2]	(192)	(205)
Intersegment eliminations	(51)	(48)
	2,833	2,775
Investments	94	184
Total assets	2,927	2,959

Goodwill

	2003	2002
Packaging products		
Boxboard	5	–
Containerboard [1]	99	101
Specialty products	7	7
	111	108
Tissue papers	10	10
Fine papers	4	4
Consolidation revaluation [2]	(42)	(43)
Total	83	79

(1) The Company's containerboard sub-segment consists entirely of its interest in Norampac, a joint venture.
(2) Consolidation revaluation includes adjustments of assets resulting from business acquisitions. It also includes the required adjustments resulting from the creation of Norampac, consisting mainly of reduction in property, plant and equipment and goodwill. The following table details the components of the consolidation revaluation relating to identifiable assets.

	2003	2002
Privatization of subsidiaries [a]	(48)	(52)
Creation of Norampac [b]	(80)	(85)
Creation of Norampac [c]	(50)	(55)
Other	(14)	(13)
	(192)	(205)

(a) Represents the impact of the privatization of certain subsidiaries of the Company on December 31, 2000. The adjustment also reflects the accounting impact of the privatization of Cascades S.A. in 2002.
(b) With respect to the creation of Norampac, the assets and liabilities that were contributed by the Company and Domtar Inc., the Company's joint venture partner in Norampac, were recorded at their fair market value. However, upon proportionate consolidation of the joint venture, the Company reduced its portion of the contributed assets and liabilities to their original carrying value.
(c) A portion of the gain realized on the creation of Norampac was recognized against property, plant and equipment and goodwill. The net book value of the deferred gain allocated against goodwill was $22 million. For the years ended December 31, 2003 and 2002, the net book value of the deferred gain allocated against goodwill was $17 million and $18 million, respectively.
The amounts shown for identifiable assets include a reduction of goodwill for the years ended December 31, 2003 and 2002 amounting to $42 million and $43 million, respectively, which is shown separately in the table above under goodwill.

For the three-year period ended December 31, 2003
(in millions of Canadian dollars)

Sales, property, plant and equipment and goodwill of the Company presented by the geographic segments are as follows:

	2003	2002	2001
By geographic segment			
Sales			
Canada			
Within Canada	1,660	1,747	1,659
To the United States	540	636	656
Offshore	51	47	47
	2,251	2,430	2,362
United States			
Within the United States	614	596	341
To Canada	36	20	9
Offshore	–	2	–
	650	618	350
Europe			
Within Europe	461	460	436
To the United States	8	10	10
To other countries	77	71	58
	546	541	504
Mexico	2	2	1
Total	3,449	3,591	3,217

	2003	2002
Property, plant and equipment		
Canada	1,013	1,003
United States	399	361
Europe	224	239
Mexico	–	1
Total	1,636	1,604

	2003	2002
Goodwill		
Canada	60	58
United States	23	21
Total	83	79

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

1 Accounting policies

Basis of presentation

The consolidated financial statements have been prepared in accordance with Canadian GAAP and include the significant accounting policies listed below.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. They also include the portion of the accounts of the joint ventures accounted for through the proportionate consolidation method. Investments in significantly influenced companies are accounted for using the equity method.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the balance sheet date, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically and, as adjustments become necessary, are reported in earnings in the period in which they are known.

Revenue recognition

The Company recognizes its sales when goods are shipped and when the significant risks and benefits of ownership are transferred.

Fair market value of financial instruments

The Company has estimated the fair market value of its financial instruments based on current interest rates, market value and current pricing of financial instruments with similar terms. Unless otherwise disclosed herein, the carrying value of these financial instruments, especially those with current maturities such as cash and cash equivalents, accounts receivable, bank loans and advances, and accounts payable and accrued liabilities, approximates their fair market value.

Derivative financial instruments

The Company uses derivative financial instruments in the management of its foreign currency, commodity and interest rate exposures. Except for certain interest rate swap agreements, the Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Company documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also assesses whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Foreign exchange forward contracts   In order to reduce the potential adverse effects of currency fluctuation, the Company enters into various foreign exchange forward contracts. Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated sales or purchases denominated in foreign currencies are recognized as an adjustment of the sales or cost of sales when the sale or purchase is recorded.

Commodity contracts   The Company enters into swap and forward contracts whereby it may set the price on notional quantities of certain raw materials or finished goods in order to reduce the potential adverse effects of changes in the cost of its raw materials or in the selling prices of its finished goods. Realized or unrealized gains and losses arising from these contracts are recognized in sales or cost of sales when the sale or purchase of the underlying commodity is recorded.

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

Interest rate swap agreements The Company also enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on a portion of its long-term debt. These swaps require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates these interest rate swap agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps designated as hedges.

Others Realized and unrealized gains or losses associated with derivative financial instruments, which have been terminated or cease to be effective prior to maturity, are deferred under current or long-term assets or liabilities and recognized in earnings in the period in which the underlying original hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative financial instrument, any realized or unrealized gain or loss on such derivative financial instrument is recognized in earnings.

Derivative financial instruments which are not designated as hedges or have ceased to be effective prior to maturity are recorded at their estimated fair values under current or long-term assets or liabilities with changes in their estimated fair values recorded in earnings. Estimated fair value is determined using pricing models incorporating current market prices and the contractual prices of the underlying instruments, the time value of money and yield curves.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term liquid investments with original maturities of three months or less.

Inventories

Inventories of finished goods are valued at the lower of average production cost and net realizable value. Inventories of raw materials and supplies are valued at the lower of cost and replacement value. Cost of raw materials and supplies is determined using the average cost and the first-in, first-out methods respectively.

Property, plant and equipment, depreciation and amortization

Property, plant and equipment are recorded at cost, including interest incurred during the construction period of certain property, plant and equipment. Depreciation and amortization are calculated on a straight-line basis at annual rates varying from 3% to 5% for buildings, 5% to 10% for machinery and equipment, and 15% to 20% for automotive equipment, determined according to the estimated useful life of each class of property, plant and equipment.

Grants and investment tax credits

Grants and investment tax credits are accounted for using the cost reduction method and are amortized to earnings as a reduction of depreciation and amortization, using the same rates as those used to amortize the related property, plant and equipment.

Other investments

Other investments are recorded at cost except when there is a decline in value which is other than temporary, in which case they are reduced to their estimated net realizable value.

Goodwill

The Company assesses periodically whether a provision for impairment in the value of goodwill is required. This is accomplished mainly by determining whether projected discounted future cash flows exceed the net book value of goodwill of the respective business units. Goodwill is tested for impairment annually on December 31, or when an event or circumstance occurs that could potentially result in a permanent decline in value.

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

Deferred charges

Deferred charges are recorded at cost and include, in particular, the issuance costs of long-term debt, which are amortized on a straight-line basis over the anticipated period of repayment of the respective debt, and start-up costs which are amortized on a straight-line basis over a period of three to five years from the end of the start-up period.

Environmental costs

Environmental expenditures, including site rehabilitation costs, are expensed or capitalized depending upon their future economic benefit. Expenditures incurred to prevent future environmental contamination are capitalized and amortized on a straight-line basis at annual rates varying from 3% to 10%. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. A provision for environmental costs is recorded when it is probable that a liability has been incurred and the costs can be reasonably estimated.

Employee future benefits

Certain subsidiaries and joint ventures of the Company maintain defined benefit pension plans which provide retirement benefits for certain employees, based upon the length of service and, in certain cases, the final average earnings of the employee. In addition, certain employees, are members of defined contribution pension plans and group registered retirement savings plans ("RRSPs"). The Company and its subsidiaries and joint ventures also provide to their employees complementary retirement benefits and other post-employment benefits, such as group life insurance and medical and dental care plans.

The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on years of service and management's best estimate of expected plan investment performance, salary escalations, retirement ages of employees and expected health care costs.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs arising from a plan amendment are amortized on a straight-line basis over the average remaining service period of the group of employees active at the date of the amendment. The excess of the net actuarial gain or loss over the greater of (a) 10% of the benefit obligation at the beginning of the year, and (b) 10% of the fair value of plan assets at the beginning of the year, is amortized over the average remaining service period of active employees.

Income taxes

The Company uses the liability method in accounting for income taxes. According to this method, future income taxes are determined using the difference between the accounting and tax bases of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect in the year in which these temporary differences are expected to be recovered or settled. Future income tax assets are recognized when it is more likely than not that the assets will be realized.

Foreign currency translation

Foreign currency transactions Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the balance sheet date. Gains and losses related to the portion of the long-term debt designated as a hedge of the net investment of the Company in self-sustaining operations are recorded in the cumulative translation adjustments. Unrealized gains and losses on translation of other monetary assets and liabilities are reflected in the determination of the net results for the year.

Foreign operations The Company's foreign operations are defined as self-sustaining. The assets and liabilities of these operations are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Revenue and expenses are translated at the average exchange rate for the year. Translation gains and losses are deferred and shown as a separate component of shareholders' equity as cumulative translation adjustments.

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

Stock-based compensation

The Company applies the fair value method of accounting for stock-based compensation awards granted to officers and key employees. This method consists of recording expenses to earnings based on the vesting period of the options granted. The fair value is calculated based on the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. When stock options are exercised, any consideration paid by employees is credited to capital stock.

Amounts per common share

Amounts per common share are determined using the weighted average number of common shares outstanding during the year. Diluted amounts per common share are determined using the treasury stock method to evaluate the dilutive effect of stock options, convertible instruments and equivalents, when applicable. Under this method, instruments with a dilutive effect, basically when the average market price of a share for the period exceeds the exercise price, are considered to have been exercised at the beginning of the period and the proceeds received are considered to have been used to redeem common shares of the Company at the average market price for the period.

2 Changes in accounting policies

a) Guarantees

On January 1, 2003, the Company adopted the new guideline of the Canadian Institute of Chartered Accountants ("CICA") regarding the disclosure of guarantees. Under this new guideline, entities are required to disclose key information about certain types of guarantee contracts that require payments contingent on specified types of future events. Disclosures include the nature of the guarantee, how it arose, the events or circumstances that would trigger performance under the guarantee, maximum potential future payments under the guarantee, the carrying amount of the related liability and information about recourse or collateral. Note 15(b) provides the required disclosure.

b) Long-lived and discontinued operations

The Company adopted the new guideline of the CICA regarding the disposal of long-lived assets and discontinued operations, which applies to disposal activities initiated on or after May 1, 2003. This new section sets standards for recognition, measurement, presentation and disclosure of the disposal of long-lived assets. It also sets standards for the presentation and disclosure of discontinued operations. The adoption of this standard did not impact the consolidated financial statements.

c) Goodwill and other intangible assets

The Company adopted the new recommendations of the CICA regarding goodwill and other intangible assets. Under the new recommendations, goodwill and intangible assets with indefinite life are no longer amortized and are tested for impairment annually based on their fair value. Intangible assets with definite useful lives continue to be amortized. However, no ceiling is placed on the useful lives. These definite-life intangible assets are subject to impairment review in accordance with existing standards. Upon adoption of this recommendation, goodwill was tested for impairment as at January 1, 2002. As a result of the tests performed, the Company concluded that no write-down was necessary of goodwill as no impairment existed as at January 1, 2002.

d) Foreign currency translation

On January 1, 2002, the Company adopted retroactively with restatement of the comparative figures the new recommendations of the CICA regarding foreign currency translation. The new recommendations eliminate the deferral and amortization of exchange gains and losses arising from the translation of long-term debt and other similar monetary items. This change resulted in a decrease in other assets and in retained earnings of $21 million as at January 1, 2002 and $10 million as at January 1, 2001. It also resulted in a decrease in net earnings of $11 million ($0.14 per share) for the year ended December 31, 2001.

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

e) Stock-based compensation

On January 1, 2002, the Company adopted the new recommendations of the CICA regarding stock-based compensation. Under this new standard, stock options are to be recorded under the fair value method, which consists of recording expenses based on the vesting period of the options granted. In accordance with the transitional provisions of these new recommendations, the Company applied the fair value method to stock options granted to its employees and those of its joint ventures after January 1, 2002.

Accounting pronouncements not yet implemented

f) Hedging relationships

On January 1, 2004, the Company applied Accounting Guideline 13 ("AcG-13") regarding hedge accounting. In compliance with the criteria required by AcG-13, hedge accounting requires the Company to document the risk management strategy used. Upon executing a hedging contract, management documents the hedged item, namely asset, liability or anticipated transaction, the characteristics of the hedging instrument used and the selected method of assessing effectiveness. The current accounting policy will be maintained for hedging relationships deemed to be effective. Consequently, realized and unrealized gains and losses on hedges will continue to be deferred until the hedged item is realized so as to allow matching of the designations in the statement of earnings. When hedging relationships cease, the Company will use the same accounting policies as those used for the year ended December 31, 2003. Hedge accounting will be applied as at January 1, 2004 for hedging relationships existing as at December 31, 2003 that meet the conditions of AcG-13. Hedging relationships existing as at December 31, 2003 that do not meet the conditions of AcG-13 will be recorded at fair value as at January 1, 2004, resulting in an increase in assets of $3.7 million and in liabilities of $0.1 million. The related unrealized gain of $3.6 million will be deferred and presented under other liabilities on the balance sheet.

g) Asset retirement obligations

In March 2003, the CICA issued Section 3110, *"Asset Retirement Obligations"*, which will be implemented by the Company on January 1, 2004. This standard requires that the fair value of a liability for an asset obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The application of this standard will not have any significant impact on the financial position or results of operations of the Company.

h) Variable interest entities

In June 2003, the CICA issued Accounting Guideline 15 ("AcG-15"), *"Consolidation of variable interest entities"*. The new guideline requires companies to identify variable interest entities in which they have an interest to determine whether they are the primary beneficiary of such entities and, if so, to consolidate them. A variable interest entity is defined as an entity in which the equity is not sufficient to permit that entity to finance its activities without external support, or the equity investors lack either voting control and the obligation to absorb future losses or the right to receive future returns. Recently, the CICA announced the deferral of the effective date of AcG-15 as it expects to make certain amendments. Previously, AcG-15 was to be effective for interim and annual periods starting on or after January 1, 2004. It is currently expected to be effective for interim and annual periods beginning on or after November 1, 2004. Early adoption is still permitted. The application of this standard will not have any impact on the financial position or results of operations of the Company.

i) Generally accepted accounting principles

In July 2003, the CICA issued Section 1100, *"Generally Accepted Accounting Principles"*, and Section 1400, *"General Standards for Financial Statement Presentation"*, which are effective for fiscal years beginning on or after October 1, 2003. Section 1100 clarifies the relative authority of various accounting pronouncements and other sources of guidance within GAAP, whereas Section 1400 clarifies what constitutes a fair presentation in accordance with GAAP. In addition, under Section 1100, industry practice no longer plays a role in establishing GAAP. As a result, the cost of delivery, which had been subtracted from sales in accordance with industry practice, will no longer be subtracted from sales, but rather will be included in cost of goods sold.

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

3 Business acquisitions and disposal

a) Acquisitions

On March 6, 2003, the Company acquired 50% of the assets of La Compagnie Greenfield S.A. in its packaging products group for $0.6 million (€0.3 million). On April 14, 2003, a joint venture of the Company acquired a corrugated products converting plant in its packaging products group, located in Schenectady, New York. The aggregate purchase price, subject to certain adjustments, is $32 million (US$22 million) and is comprised of $20 million (US$14 million) in cash and all the operating assets of its Dallas-Fort Worth, Texas plant valued at $12 million (US$8 million). The Company's 50% share in the cash portion of the purchase price amounted to $10 million (US$7 million).

On October 1, 2003, the Company increased its investment from 40% to 50% in Dopaco, Inc., a U.S. producer of boxboard packaging for the quick-service restaurant industry, for a consideration of $17 million (US$12.4 million). The balance sheet and results of Dopaco, Inc. are proportionally consolidated since October 1, 2003.

On December 22, 2003, the Company completed the acquisition of all shares in Scierie P. H. Lemay ltée, a Canadian company operating a sawing and a planing plant for a consideration of $3 million. Prior to this transaction, the Company had a 50% holding in the company.

On January 2, 2002, one of the Company's joint ventures increased its investment in Metro Waste Paper Recovery Inc. ("Metro Waste"), another joint venture, in exchange for assets having a net value of $6 million. On January 21, 2002, one of the Company's joint ventures acquired Star Leominster in the packaging products segment for $50 million (US$31 million), the Company's share amounting to $25 million (US$15.5 million). On March 27, 2002, the Company acquired converting operations from American Tissue in the tissue papers segment for an amount of $30 million (US$19 million). On June 14, 2002, the Company completed the acquisition of two manufacturing units of American Tissue for a consideration of $66 million (US$43 million). Other acquisitions and price adjustments on prior transactions amounted to $10 million.

On March 1, 2001, the Company acquired a folding carton plant in the packaging products segment ("Crown Packaging—Boxboard") from Crown Packaging Ltd. and 428959 B.C. Ltd. for a cash consideration of $11 million. On April 2, 2001, one of the Company's joint ventures acquired all the assets of a containerboard mill and eight paper recovery plants in the packaging products segment ("Crown Packaging—Containerboard") from Crown Packaging Ltd. and 428959 B.C. Ltd. for a cash consideration of $50 million, the Company's share amounting to $25 million. On September 11, 2001, the Company acquired the assets of two production facilities in the tissue paper segment from Plainwell Inc. ("Plainwell") for a cash consideration of $90 million (US$57 million). On November 12, 2001, one of the Company's joint ventures acquired all the issued and outstanding shares of Star Corrugated Box Co. ("Star") in the packaging products segment for a cash consideration of $44 million (US$28 million), the Company's share amounting to $22 million (US$14 million). With respect to the latter, the joint venture may pay additional consideration of $5 million (US$3 million) if certain specific earnings objectives are met, the Company's share amounting to $2.5 million (US$1.5 million).

These acquisitions have been accounted for using the purchase method and the accounts and results of operations of these entities have been included in the consolidated financial statements since their respective dates of acquisition. The following allocations of the purchase prices to the identifiable assets acquired and liabilities assumed resulted in goodwill of $7 million as at December 31, 2003 (2002—$17 million; 2001—$5 million). None of the above-mentioned goodwill is expected to be deductible for tax purposes with the exception of an amount of $4 million as at December 31, 2003.

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

2003	Greenfield	Schenectady	Dopaco	Scierie Lemay	
	Packaging products	Packaging products	Packaging products	Packaging products	Total
Accounts receivable	–	2	19	4	25
Inventories	2	2	27	9	40
Property, plant and equipment	–	11	107	16	134
Other assets	–	–	10	4	14
Goodwill	–	2	4	1	7
	2	17	167	34	220
Bank loans and advances	–	–	–	(5)	(5)
Accounts payable and accrued liabilities	(1)	(1)	(22)	(6)	(30)
Long-term debt	–	–	(14)	(10)	(24)
Other liabilities	–	–	(32)	(3)	(35)
	1	16	99	10	126
Less: Fair market value of assets exchanged	–	(6)	–	–	(6)
Less: Investments realized in prior years	–	–	(82)	(7)	(89)
Total consideration	1	10	17	3	31

2002	American Tissue	Star Leominster	Metro Waste	Others	
	Tissue paper	Packaging products	Packaging products		Total
Accounts receivable	–	3	2	6	11
Inventories	–	2	–	3	5
Property, plant and equipment	92	9	4	13	118
Other assets	4	–	–	–	4
Goodwill	–	15	2	–	17
	96	29	8	22	155
Accounts payable and accrued liabilities	–	(2)	(2)	(3)	(7)
Other liabilities	–	(2)	–	–	(2)
	96	25	6	19	146
Less: Fair market value of assets exchanged	–	–	(6)	–	(6)
Less: Investments realized in prior years	–	–	–	(9)	(9)
Total consideration	96	25	–	10	131

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

2001	Plainwell	Star	Crown Packaging Boxboard	Crown Packaging Containerboard	
	Tissue paper	Packaging products	Packaging products	Packaging products	Total
Accounts receivable	16	7	4	5	32
Inventories	16	2	5	4	27
Property, plant and equipment	68	18	5	24	115
Goodwill	–	5	–	–	5
	100	32	14	33	179
Accounts payable and accrued liabilities	(10)	(6)	(3)	(8)	(27)
Other liabilities	–	(4)	–	–	(4)
Total consideration	90	22	11	25	148

b) Disposal

In 2002, the Company sold its retail egg carton operation (packaging products segment) located in Canada for a cash consideration of $4 million.

4 Inventories

	2003	2002
Finished goods	**260**	257
Raw materials	**104**	89
Supplies	**137**	132
	501	478

5 Property, plant and equipment

2003	Cost	Accumulated depreciation and amortization	Net
Lands	**53**	**–**	**53**
Buildings	**431**	**129**	**302**
Machinery and equipment	**2,271**	**1,047**	**1,224**
Automotive equipment	**53**	**40**	**13**
Others	**51**	**7**	**44**
	2,859	**1,223**	**1,636**

2002	Cost	Accumulated depreciation and amortization	Net
Lands	54	–	54
Buildings	421	116	305
Machinery and equipment	2,085	896	1,189
Automotive equipment	49	36	13
Others	49	6	43
	2,658	1,054	1,604

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

Property, plant and equipment include assets under capital leases with a cost of $13 million and accumulated amortization of $4 million as at December 31, 2003 (2002—$32 million and $16 million respectively). Other property, plant and equipment include items that are not amortized, such as machinery and equipment in the process of installation with a book value of $23 million (2002—$20 million), deposits on purchases of property, plant and equipment amounting to $2 million (2002—$2 million) and unused properties, machinery and equipment with a net book value of $15 million (2002—$17 million) which does not exceed their estimated net realizable value.

Depreciation and amortization of property, plant and equipment amounted to $141 million for the year ended December 31, 2003 (2002—$131 million; 2001—$119 million).

6 Other assets and goodwill

a) Other assets are detailed as follows:

	Note	2003	2002
Investments in significantly influenced companies		85	176
Other investments		9	8
Deferred charges	6(d)	36	21
Employee future benefits	14(b)	50	52
Other definite-life intangible assets	6(d)	6	3
		186	260

b) Goodwill fluctuated as follows:

	Packaging products					
2003	Boxboard	Containerboard	Specialty products	Sub-total	Tissue papers	Total
Carrying value of goodwill—						
Beginning of period	–	67	2	69	10	79
Goodwill resulting from acquisitions	5	2	–	7	–	7
Amortization of a deferred gain (1)	–	1	–	1	–	1
Foreign currency translation adjustment	–	(4)	–	(4)	–	(4)
Carrying value of goodwill—End of period	5	66	2	73	10	83

	Packaging products					
2002	Boxboard	Containerboard	Specialty products	Sub-total	Tissue papers	Total
Carrying value of goodwill—						
Beginning of period	1	49	8	58	10	68
Reclassification to definite-life intangible assets	(1)	–	(3)	(4)	–	(4)
Goodwill resulting from acquisitions	–	17	–	17	–	17
Amortization of a deferred gain (1)	–	1	–	1	–	1
Decrease in goodwill resulting from disposal of a facility (2)	–	–	(3)	(3)	–	(3)
Carrying value of goodwill—End of period	–	67	2	69	10	79

(1) On December 30, 1997, the Company and Domtar Inc. merged their respective containerboard and corrugated packaging operations to form Norampac, a 50-50 joint venture. A portion of the gain realized on the transaction was recorded against property, plant and equipment and goodwill. Under current accounting standards, the portion of the deferred gain allocated to goodwill is amortized on a straight-line basis over a period of 25 years.

(2) In 2002, as described in note 3(b), the Company disposed of its retail egg carton operation located in Canada. The amount of $3 million represents the carrying value of the goodwill allocated to this facility prior to the disposal.

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

c) The following table presents a reconciliation of reported net earnings to adjusted net earnings as required by the transitional provisions of the new recommendation of the CICA regarding goodwill, implemented as at January 1, 2002 as described in note 2(c).

	2003	2002	2001
Reported net earnings	55	169	109
Adjustment:			
Goodwill amortization, net of related income taxes	–	–	3
Adjusted net earnings	55	169	112
Adjusted basic net earnings per common share	0.66	2.07	1.37
Adjusted diluted net earnings per common share	0.66	2.05	1.37

d) Deferred charges and other definite-life intangible assets are detailed as follows:

	2003			2002		
	Cost	Accumulated depreciation and amortization	Net	Cost	Accumulated depreciation and amortization	Net
Deferred charges						
Start-up cost	31	26	5	29	23	6
Financing costs	36	10	26	17	9	8
Other	9	4	5	13	6	7
	76	40	36	59	38	21
Other definite-life intangible assets	11	5	6	6	3	3

Depreciation and amortization of deferred charges and other definite-life intangible assets amounted to $5 million for the year ended December 31, 2003 (2002—$9 million; 2001—$8 million).

The weighted average amortization period is as follows (in number of years):

Start-up cost	4
Financing costs	9
Other	7
Deferred charges	8
Other definite-life intangible assets	18

The estimated aggregate amount of depreciation and amortization expense in each of the next five years is as follows:

Years ending December 31,	2004	7
	2005	6
	2006	5
	2007	4
	2008	4

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

7 Long-term debt

	Note	2003	2002
Cascades Inc. and its subsidiaries			
Revolving credit facility, weighted average rate of 4.11% as at December 31, 2003, maturing in February 2007	7(a)	168	–
7.25% Unsecured senior notes of US$550 million, maturing in 2013	7(a), (d)	711	–
Redeemable preferred shares	7(b)	–	51
8.375% Senior notes, reimbursed during the year	7(a)	–	197
Revolving credit facilities, reimbursed during the year	7(a)	–	502
Other debts, reimbursed during the year	7(a)	–	114
Capital lease obligations	7(d), (h)	13	14
Other debts		23	9
		915	887
Less: Current portion		10	22
		905	865

Joint ventures

The Company's proportionate share of the following debts of joint ventures do not give to their holders any recourse against the assets or general credit of Cascades Inc. and its subsidiaries.

	Note	2003	2002
Revolving credit facility, weighted average rate of 3.97% as at December 31, 2003, maturing in May 2008	7(c)	11	–
6.75% Unsecured senior notes of US$250 million, maturing in 2013	7(c), (d)	161	–
Revolving credit facilities, reimbursed during the year	7(c)	–	19
9.50% and 9.375% Senior notes, reimbursed during the year	7(c)	–	169
Capital lease obligations	7(d), (h)	–	7
Other debts		23	13
		195	208
Less: Current portion		8	25
		187	183
Total			
Long-term debt		1,110	1,095
Less: Current portion		18	47
		1,092	1,048

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

a) On February 5, 2003, the Company completed a series of transactions to refinance substantially all of its existing credit facilities, except those of its joint ventures. It secured a new four-year revolving credit facility of CAN$500 million. Its obligations under this new revolving credit facility are secured by all inventory and receivables of Cascades and its North American subsidiaries and by the property, plant and equipment of three of its mills. In addition, it issued new unsecured senior notes for an aggregate amount of US$450 million. These notes, bearing a 7.25% coupon, will mature in 2013 and are redeemable in all or in part at the option of the Company under certain conditions and subject to payment of a redemption premium. The aggregate proceeds of these two transactions, combined with its available cash on hand, were used by the Company to repay substantially all of the existing credit facilities. On March 12, 2003, the Company also redeemed the US$125 million 8.375% senior notes originally due in 2007 issued by its subsidiary, Cascades Boxboard Group Inc.

On July 8, 2003, the Company completed a private placement of US$100 million of 7.25% senior notes due in 2013, which are treated as part of the same series of 7.25% senior notes due in 2013 issued in February, as described above. The issuance of these senior notes was completed at a price of 104.50% or an effective interest rate of 6.61%. The proceeds of this financing were used to reduce indebtedness under the revolving credit facility of the Company.

b) The redeemable preferred shares include 2,011,337 Class A preferred shares of a subsidiary. These shares provide for a cumulative quarterly dividend of 1.25% of their accrued redemption amount of $51 million, of which $1 million represents the dividends accrued for the first three years following their issuance and payable upon redemption. During the year, the Company purchased the remaining preferred shares of this subsidiary for a consideration of $51 million.

c) On May 28, 2003, a joint venture of the Company, Norampac Inc., completed a series of transactions to substantially refinance all of its existing credit facilities. Norampac secured a new five-year revolving credit facility of CAN$350 million. Its obligations under this new revolving credit facility are secured by all inventory and receivables of Norampac Inc. and its North American subsidiaries, and by the property, plant and equipment of two of its mills and three of its converting facilities. In addition, Norampac issued new unsecured senior notes for an aggregate amount of US$250 million. These notes, bearing a 6.75% coupon, will mature in 2013 and are redeemable in all or in part at the option of the Company under certain conditions and subject to payment of a redemption premium. The aggregate proceeds of these two transactions were used by the joint venture to repay substantially all of the existing credit facilities and to redeem both its US$150 million 9.50% and CAN$100 million 9.375% senior notes originally due in 2008.

d) As at December 31, 2003, the fair value of the senior notes and the capital lease obligations of Cascades Inc. and its subsidiaries and joint ventures was estimated at $759 million and $167 million respectively (December 31, 2002—$211 million and $183 million respectively) based on the market value of the senior notes and on discounted future cash flows using interest rates available for issues with similar terms and average maturities.

e) As at December 31, 2003, the long-term debt included amounts denominated in foreign currencies of US$702 million and €24 million (December 31, 2002—US$229 million and €44 million).

f) As at December 31, 2003, accounts receivable and inventories totalling approximately $512 million as well as property, plant and equipment totalling approximately $160 million were pledged as collateral for the long-term debt of Cascades Inc. and its subsidiaries.

Accounts receivable and inventory totalling approximately $136 million as well as property, plant and equipment totalling approximately $218 million were pledged as collateral for the long-term debt of a joint venture.

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

g) The estimated aggregate amount of repayments on long-term debt, excluding capital lease obligations, in each of the next five years is as follows:

		Cascades Inc. and its subsidiaries	Joint ventures
Years ending December 31,	2004	3	8
	2005	3	6
	2006	3	3
	2007	174	3
	2008	1	12
	Thereafter	718	163

h) As at December 31, 2003, future minimum payments under capital lease obligations are as follows:

		Cascades Inc. and its subsidiaries	Joint ventures
Years ending December 31,	2004	8	–
	2005	2	–
	2006	2	–
	2007	1	–
	2008	1	–
		14	–
Less: Interest (weighted average rate of 4.69%)		1	–
		13	–
Less: Current portion		7	–
		6	–

i) As at December 31, 2003, the Company and joint ventures had unused credit facilities of $330 million and $181 million respectively (December 31, 2002—$232 million and $99 million respectively).

8 Other liabilities

	Note	2003	2002
Employee future benefits	14(b)	**80**	72
Future income taxes	12(c)	**182**	142
Non-controlling interests		**3**	2
		265	216

9 Capital stock

	Note	2003	2002
Common shares	9(a)	**262**	261
Preferred shares of a subsidiary	9(b)	**–**	6
Adjustment relating to stock options	9(c)	**2**	1
		264	268

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

a) The authorized capital stock of the Company consists of an unlimited number of common shares without nominal value, and an unlimited number of Class A and B shares issuable in series without nominal value. Over the past three years, the common shares have fluctuated as follows:

	Note	2003		2002		2001	
		Number of shares		Number of shares		Number of shares	
Balance—Beginning of year		**81,826,272**	**261**	80,987,466	254	80,900,663	254
Shares issued on exercise of stock options	9(c)	**180,115**	**2**	407,062	3	86,803	–
Redemption of common shares	9(d)	**(275,000)**	**(1)**	(238,400)	(1)	–	–
Shares issued in connection with the 2000 privatization		**–**	**–**	670,144	5	–	–
Balance—End of year		**81,731,387**	**262**	81,826,272	261	80,987,466	254

b) The 4,300,000 Class B preferred shares of a subsidiary are convertible into common shares of the subsidiary, which will be exchanged, in accordance with an agreement with the holders, for a total of 872,727 common shares of the Company. These preferred shares provide for a cumulative quarterly dividend of 0.25% of their redemption price. These shares are redeemable by the subsidiary at any time at a price of $25 per share. In 2003, the Company purchased these preferred shares of a subsidiary for a consideration of $16 million. The excess of the redemption price of $10 million over the recorded capital is included in retained earnings.

c) Under the terms of a share option plan adopted on December 15, 1998 for officers and key employees of the Company and its joint ventures, 6,681,154 common shares have been specifically reserved for issuance. Each option will expire at a date not to exceed ten years following the date the option was granted. The exercise price of an option shall not be lower than the market value of the share at the date of grant, determined as the average of the closing price of the share on the Toronto Stock Exchange on the five trading days preceding the date of grant. The terms for exercising the options are 25% of the number of shares under option within twelve months after the date of grant, and up to an additional 25% each twelve months after the first, second and third anniversary dates of grant. The options cannot be exercised if the market value of the share is lower than its book value at the date of grant.

Changes in the number of options outstanding as at December 31 are as follows:

	2003		2002		2001	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$		$
Beginning of year	**1,378,610**	**8.82**	1,492,652	7.44	1,166,337	7.64
Granted	**321,596**	**13.04**	324,113	13.24	532,310	6.82
Exercised	**(180,115)**	**7.92**	(407,062)	7.13	(86,803)	3.43
Forfeited	**(25,149)**	**8.99**	(31,093)	10.79	(119,192)	9.59
End of year	**1,494,942**	**9.83**	1,378,610	8.82	1,492,652	7.44
Options exercisable—End of year	**935,011**	**8.55**	886,413	8.19	840,313	7.34

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

The following options were outstanding as at December 31, 2003:

	Options outstanding		Options exercisable		
Year granted	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Expiration
		$		$	
1996	42,760	6.70	42,760	6.70	2006
1999	371,295	8.53	371,295	8.53	2009
2000	74,664	7.78	74,664	7.78	2010
2001	404,566	6.82	303,425	6.82	2011
2002	285,734	13.24	142,867	13.24	2012
2003	315,923	13.04	–	–	2013
	1,494,942		935,011		

The following assumptions were used to estimate the fair value, at the date of grant, of each option issued to employees:

	2003	2002
Risk-free interest rate	**4.8%**	4.9%
Expected dividend yield	**1.21%**	1.19%
Expected life of the options	**6 years**	6 years
Expected volatility	**28%**	26%

During the year ended December 31, 2003, the Company issued 321,596 options having a weighted average fair value of $4.36 per option. Accordingly, $1 million has been recognized in expenses for the share option plan during the years ended December 31, 2003 and 2002 as well as an adjustment to capital stock for the equivalent amount.

d) In 2003, in the normal course of business, the Company renewed its redemption program of a maximum of 4,091,424 common shares with the Toronto Stock Exchange which represents approximately 5% of issued and outstanding common shares. The redemption authorization is valid from March 11, 2003 to March 10, 2004. In 2003, the Company redeemed 275,000 common shares under this redemption program for a consideration of approximately $4 million.

e) The basic and diluted net earnings per common share for the years ended December 31, 2003, 2002 and 2001 are calculated as follows:

	2003	2002	2001
Net earnings	**54.7**	169.5	109.0
Dividends—Preferred shares	**(0.5)**	(1.1)	(1.1)
Net earnings available to common shareholders	**54.2**	168.4	107.9
Weighted average common shares	**81.7**	81.5	80.9
Dilution effect of stock options	**0.4**	0.8	0.3
Adjusted weighted average common shares	**82.1**	82.3	81.2
Basic net earnings per common share	**0.66**	2.07	1.33
Diluted net earnings per common share	**0.66**	2.05	1.33

f) In July 2001, the Company offered to its Canadian employees a share purchase plan of its common stock. Employees can contribute, on a voluntary basis, up to a maximum of 5% of their salary and, if certain conditions are met, the Company will contribute to the plan 25% of the employee's contribution.

The shares are purchased on the market on a predetermined date each month. For the years ended December 31, 2003 and 2002, the Company's contribution to the plan amounted to $0.6 million.

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

10 Share of earnings of significantly influenced companies

On February 20, 2002, a significantly influenced company, Boralex Inc., sold seven power stations to an income fund. The Company thus realized a gain of $18 million net of related future income taxes of $5 million, representing its share of the net gain realized by this significantly influenced company.

In 2003, this gain was adjusted by Boralex Inc. The Company thus recorded its share of that adjustment representing a loss of $3 million net of related future income taxes.

11 Unusual losses (gains)

	Note	2003	2002	2001
Loss on long-term debt refinancing	11(a)	22	–	–
Gain on dilution and disposal of an investment	11(b)	–	(1)	(30)
Gain on expropriation of lands		–	–	(4)
Loss (gain) on business disposal	11(c)	–	5	(2)
Other expenses	11(d)	–	–	18
Expenses related to business closures	11(e)	–	6	11
Other income	11(f)	–	(6)	–
		22	4	(7)

a) The Company realized a loss of $12 million during the year, resulting from the refinancing of substantially all of its long-term debt. This loss is attributable to an $8-million premium paid to redeem the 8.375% senior notes of a subsidiary and the write-off of related financing costs for an amount of $3 million. The Company also realized a loss of $1 million following the payment of a penalty on the early redemption of a subsidiary's fixed rate long-term debt.

A joint venture of the Company realized a loss of $20 million in the second quarter resulting from the refinancing of substantially all of its long-term debt. This loss is attributable to a $14-million premium paid to redeem its CAN$100 million and US$150 million senior notes, in addition to the write-off of related financing costs for an amount of $6 million. The Company's 50% share of the loss amounted to $10 million.

b) In 2002, the Company realized a gain of $1 million resulting from the dilution of its investments in a significantly influenced company. In 2001, Boralex Inc., a significantly influenced company, concluded two issuances of 4,000,000 common shares each, resulting in a dilution of the Company's interest. In addition, in 2001, the Company disposed of 2,000,000 shares of this entity for a consideration of $11 million. These transactions resulted in a gain of $30 million, of which $23 million represents the gain on dilution and $7 million the gain on disposal of an investment.

c) In 2002, the Company sold its retail egg carton operation located in Canada, realizing a loss of $5 million. In 1999, the Company had disposed of its 50% interest in a fluff pulp mill located in France. The sale price included a contingent consideration of a maximum amount of $10 million based on the profitability of the mill. Accordingly, the Company realized a gain of $8 million in 2000 and $2 million in 2001.

d) Other expenses included provisions for impairment in value of certain long-term assets.

e) In 2002, the Company closed one of its converting folding boxboard units located in Ontario, incurring closing costs of $6 million. In 2001, the Company closed one of its converting units in specialty products located in Richmond, Virginia, incurring closing costs of $11 million.

f) In 2002, the Court of First Instance of the European Community reduced the amount of the fine imposed in 1994. The reduction in the fine and the related interest thereon have been recorded as a gain amounting to approximately $6 million.

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

12 Income taxes

a) The provision for income taxes is as follows:

	2003	2002	2001
Current	15	48	47
Future	(1)	13	2
	14	61	49

b) The income tax expense based on the effective income tax rate differs from the income tax expense based on the combined basic rate for the following reasons:

	2003	2002	2001
Income tax expense based on the combined basic Canadian and provincial income tax rate	29	90	71
Income tax expense (benefit) arising from the following:			
Deduction for manufacturing and processing and income from active businesses carried on in Quebec	(3)	(19)	(18)
Difference in foreign operations' statutory income tax rate	–	(3)	(3)
Unrecognized tax benefit arising from current losses of subsidiaries	2	2	4
Unrecognized tax benefit arising from foreign exchange loss on long-term debt	–	–	5
Non-taxable portion of foreign exchange gain on long-term debt	(18)	–	–
Recognized tax benefit arising from previously incurred losses of subsidiaries	(9)	(10)	(6)
Permanent differences	1	2	3
Large corporations tax	4	2	3
Increase (decrease) in future income taxes resulting from a substantively enacted change in tax rates	5	(1)	(6)
Others	3	(2)	(4)
	(15)	(29)	(22)
Income tax expense for the year	14	61	49

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

c) Future income taxes include the following items:

	2003	2002
Future income tax assets		
Tax benefit arising from income tax losses	108	79
Employee future benefits	19	18
Exchange loss on long-term debt	–	7
Unused tax credits	9	9
Others	10	6
Valuation allowance	(28)	(33)
	118	86
Future income tax liabilities		
Property, plant and equipment	247	193
Exchange gain on long-term debt	23	–
Employee future benefits	12	16
Other assets	14	14
Others	4	5
	300	228
Future income taxes	182	142

d) Certain subsidiaries have accumulated losses for income tax purposes amounting to approximately $284 million which may be carried forward to reduce taxable income in future years. The future tax benefit resulting from the deferral of $242 million of these losses has been recognized in the accounts as a future income tax asset. These unused losses for income tax purposes may be claimed in years ending no later than 2023 for an amount of $183 million and indefinitely for an amount of $101 million.

13 Additional information

a) Changes in non-cash working capital components are detailed as follows:

	2003	2002	2001
Accounts receivable	11	27	74
Inventories	2	(21)	7
Accounts payable and accrued liabilities	(39)	6	(16)
	(26)	12	65

b) Supplemental disclosure

	2003	2002	2001
Amortization of deferred financing costs included in interest expense	4	1	–
Interest paid	73	78	86
Income taxes paid	37	62	40
Acquisition of property, plant and equipment under a capital lease	–	–	6
Business acquisition in exchange for non-monetary consideration	6	6	–
Settlement with dissenting shareholders by issuance of common shares	–	5	–

c) Cost of sales

	2003	2002	2001
Foreign exchange gain (loss)	(9)	3	3

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(tabular amounts in millions of Canadian dollars)

14 Employee future benefits

a) The expense for employee future defined benefits as at December 31 is as follows:

	2003		2002		2001	
	Pension plans	Other plans	Pension plans	Other plans	Pension plans	Other plans
Current service cost	12	2	11	2	10	2
Interest cost on obligation	30	4	28	4	27	3
Expected return on plan assets	(30)	–	(31)	–	(32)	–
Others	2	3	–	–	–	–
Expense for the year	14	9	8	6	5	5

The expense recorded in 2003 for defined contribution plans (excluding group RRSPs) amounts to $2 million (2002—$2 million; 2001—$1 million).

b) The funded status of the defined benefit plans and the other complementary retirement benefit plans and post-employment benefit plans are as follows as at December 31:

	2003		2002	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation				
Obligation—Beginning of year	440	66	414	56
Current service cost	12	2	11	2
Interest cost	30	4	28	4
Contributions by employees	6	–	6	–
Actuarial losses	8	4	4	1
Benefit payments	(24)	(2)	(20)	(3)
Business acquisitions and disposals	7	–	(2)	(1)
Pension plan modifications	3	2	(1)	1
Others	(2)	2	–	6
Obligation—End of year	480	78	440	66
Plan assets				
Fair value—Beginning of year	411	–	435	–
Actual return on assets	60	–	(13)	–
Contributions by the Company	11	–	9	–
Contributions by employees	6	–	6	–
Benefit payments	(24)	–	(20)	–
Business acquisitions and disposals	4	–	(4)	–
Others	–	–	(2)	–
Fair value—End of year	468	–	411	–
Reconciliation of funded status (deficit)				
Deficit—End of year	(12)	(78)	(29)	(66)
Unamortized net actuarial loss	51	6	74	2
Unamortized transitional obligation	(2)	–	(2)	–
Unamortized past service cost	3	2	1	–
Net amount recognized	40	(70)	44	(64)

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

The net amount recognized as at December 31 is detailed as follows:

	2003			2002
	Pension plans	Other plans	Total	Total
Employee future benefit asset	50	–	50	52
Employee future benefit liability	(77)	(3)	(80)	(72)
	(27)	(3)	(30)	(20)

c) The following amounts relate to plans that are not fully funded as at December 31:

	2003		2002	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation	(308)	(78)	(350)	(66)
Fair value of plan assets	275	–	304	–
Funded deficit	(33)	(78)	(46)	(66)

d) The main actuarial assumptions adopted in measuring the accrued benefit obligations and expenses as at December 31, 2003 are as follows:

	Pension plans	Other plans
Discount rate	6.25% to 6.75%	6.25% to 6.75%
Expected long-term rate of return on plan assets	7.0% to 8.0%	–
Salary escalation rate	3.0% to 5.0%	3.0% to 5.0%
Rate increase in health care cost		
2000	–	8.0% to 13.0%
Ultimately	–	4.3% to 8.0%

The discount rate used by most subsidiaries and joint ventures of the Company for the valuation of the pension and other plans is 6.25%.

15 Commitments and contingencies

a) Future minimum payments under operating leases and other commercial commitments (mainly composed of raw materials, natural gas, steam and electricity) for the next years are as follows:

		Operating leases	Other commercial commitments
Years ending December 31,	2004	35	112
	2005	30	43
	2006	26	29
	2007	21	18
	2008	16	1
	Thereafter	36	16

b) The Company has guaranteed the payment of approximately $4 million under operating leases held by third parties. The Company also guaranteed residual values at the expiration of lease contracts of certain equipment for an approximate amount of $3 million. Management of the Company does not believe that these guarantees are likely to be called and, as such, no liability has been recognized in the consolidated financial statements.

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(tabular amounts in millions of Canadian dollars)

c) During the year, the Company was informed that one of its divisions, Cascades Resources, is the subject of an inquiry by the Canadian Commissioner of Competition as to whether Cascades Resources and its competitors had colluded to unduly reduce market competition between paper merchants in Canada. The Competition Bureau has not informed the Company regarding the status of the inquiry or whether charges will be brought against that division. As the inquiry is still in an early stage, the Company's management is unable to assess what further action, if any, the Competition Bureau may take or the possible impact of the outcome of the inquiry on the Company. However, based on the information currently available, the Company's management does not believe that this matter will have a material adverse effect on the Company's business, results of operations or financial condition.

16 Financial instruments

The Company and some of its subsidiaries utilize a variety of derivative financial instruments to limit their exposure to foreign currency and commodity fluctuations as well as changing interest rates but do not hold or issue such financial instruments for trading purposes with the exception of certain interest rate swap agreements as described below.

Currency risks

The Company is exposed to currency risks as a result of its export of goods produced in Canada, the United States, France, Germany, Sweden, England and Mexico. These risks are partially covered by purchases, debt service and forward exchange contracts.

The Company and a joint venture entered into contracts to sell forward U.S. dollars in exchange for Canadian dollars. As at December 31, 2003, the Company and a joint venture held foreign exchange forward contracts with a notional amount of $130 million (2002—$143 million) maturing in 2005, at a weighted average exchange rate of 1.3732. As at December 31, 2003, the fair value of these instruments represented an unrealized gain of $6.8 million. However, these instruments did not represent any unrealized loss or gain as at December 31, 2002 and represented an unrealized loss of $3.1 million as at December 31, 2001.

The European subsidiaries entered into foreign exchange forward contracts maturing in less than a year to hedge their currency risks resulting from sales and purchases in European currencies, U.S. dollars, British pounds, Swedish krona and Canadian dollars. As at December 31, 2003, the fair value of these instruments represented an unrealized gain of $0.1 million (2002—unrealized loss of $0.5 million; 2001—unrealized loss of $0.5 million) on a notional amount of $20 million (2002—$25 million and 2001—$40 million).

Interest rate risks

As at December 31, 2003, approximately 18% (2002—52%) of the Company's long-term debt was at variable rates. Interest rate swaps have been contracted to fix interest at a weighted average rate of 6.94% on a notional amount of $50 million in 2002 and 2001. These instruments which represent an unrealized loss of $1.5 million as at December 31, 2002 (2001—unrealized loss of $2.5 million) were terminated in 2003. Following the refinancing completed on February 5, 2003, these interest rate swaps were not designated as hedges and a loss of $0.9 million was recognized in earnings in 2003.

In addition, a joint venture, Norampac Inc., holds certain interest rate swap agreements not designated as hedges. These agreements, maturing from 2008 to 2012, have been contracted to fix interest at a weighted average rate of 8.18% on a notional amount of US$3 million. As at December 31, 2003, these agreements are recorded as liabilities at their fair value of $0.6 million (2002—$0.9 million).

Credit risks

The Company is exposed to credit risk on the accounts receivable from its customers. In order to reduce this risk, the Company's credit policies include the analysis of the financial position of its customers and the regular review of their credit limits. In addition, the Company believes there is no particular concentration of credit risks due to the geographic diversity of customers and the procedures for the management of commercial risks. Derivative financial instruments include an element of credit risk should the counterparty be unable to meet its obligations. The Company reduces this risk by dealing with creditworthy financial institutions.

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(tabular amounts in millions of Canadian dollars)

In the context of its credit risk management, in 2002, the Company entered into a transfer of receivables agreement with a financial institution. This agreement allows the Company to sell, on a continuous basis, its accounts receivable of a specific client for an amount of up to $20 million. In the event of a late payment from the client, the only recourse of the financial institution against the Company is a penalty fee for which management believes that no payment will be required in the future. The Company services the sold accounts receivable and no servicing asset or liability is recognized, as management believes that the value of the services rendered is equivalent to the benefits earned. As at December 31, 2002, the accounts receivable sold amounted to $11 million and were accounted for as an inflow from accounts receivable in the consolidated statement of cash flows. In 2002, the Company incurred expenses of $0.5 million with respect to this agreement.

Commodity price risk

The Company also entered into swap contracts whereby it sets the price on notional quantities of sorted office papers, old corrugated containers, bleached softwood kraft, electricity, natural gas, 42-lb. kraft linerboard and 26-lb. semichemical corrugating medium. Gains and losses arising from these contracts are charged to earnings only when realized. The fair value of these contracts as at December 31, 2003 represented a net unrealized gain of $4.7 million (2002—net unrealized gain of $1.5 million; 2001—net unrealized loss of $1.6 million).

17 Related party transactions

The Company entered into the following transactions with related parties:

	2003	2002	2001
Joint ventures (1)			
Sales	**26**	19	17
Revenue from services	**21**	22	22
Purchases	**26**	24	11
Significantly influenced companies			
Sales	**48**	58	44
Purchases	**15**	13	25
Entity controlled by a related director of the Company			
Purchases	**7**	5	5

These transactions occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The balance sheets as at December 31 included the following balances with related parties:

	2003	2002
Joint ventures (1)		
Accounts receivable	**6**	5
Accounts payable	**3**	3
Significantly influenced companies		
Accounts receivable	**–**	4
Accounts payable	**–**	1
Entity controlled by a related director of the Company		
Accounts payable	**1**	1

(1) Represent the portion of transactions or balances not eliminated upon proportionate consolidation of the joint ventures.

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18 Interests in joint ventures

The major components of the interests in joint ventures in the consolidated financial statements are as follows:

	2003	2002	2001
Consolidated balance sheets			
Current assets	**237**	191	173
Long-term assets	**572**	465	427
Current liabilities	**121**	123	107
Long-term debt, net	**188**	182	194
Consolidated statements of earnings			
Sales	**756**	712	636
Depreciation and amortization	**34**	29	26
Operating income	**61**	88	92
Financial expenses	**17**	19	17
Net earnings	**25**	46	38
Consolidated statements of cash flows			
Operating activities	**42**	63	70
Investing activities	**(44)**	(58)	(90)
Financing activities	**2**	3	6
Additional information			
Cash and cash equivalents at end of period	**12**	13	6
Total assets	**809**	656	600
Total debt (1)	**211**	218	213
Dividends received by the Company from joint ventures	**16**	17	22

(1) Includes bank loans and advances, current portion of long-term debt, and long-term debt.

19 Summary of differences between Canadian and United States generally accepted accounting principles

The consolidated financial statements have been prepared in accordance with Canadian GAAP which differs in certain respects from U.S. generally accepted accounting principles ("U.S. GAAP"). Such differences, as they relate to the Company, are summarized below.

New accounting policies under U.S. GAAP

a) Financial instruments

On July 1, 2003, the Company applied SFAS 150, *"Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity"*. SFAS 150 requires mandatorily redeemable instruments to be classified as liabilities if they embody an obligation outside the control of the issuer and the holder to redeem the instrument, and if the obligation is required to be redeemed at a specified or determinable date or upon an event certain to occur. The adoption of this standard resulted in the reclassification of mandatorily redeemable preferred shares amounting to $4.2 million from other liabilities (non-controlling interest) to long-term debt. The measurement of these instruments at fair value did not result in any significant adjustment.

b) Accounting for Asset Retirement Obligation

On January 1, 2003, the Company applied SFAS 143, *"Accounting for Asset Retirement Obligation"*. This standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The application of this standard did not have any impact on the financial position or results of operations of the Company.

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(tabular amounts in millions of Canadian dollars)

c) Costs Associated with Exit or Disposal Activities

On January 1, 2003, the Company applied SFAS 146, *"Accounting for Costs Associated with Exit or Disposal Activities"*. The statement changes the measurement and timing of recognition for exit costs, including restructuring charges. The application of this standard did not have any impact on the financial position or results of operations of the Company.

d) Guarantees

On January 1, 2003, the Company applied FIN 45, *"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others"*. FIN 45 elaborates on the disclosure requirements of a company with respect to its obligations under certain guarantees. It also clarifies that a company is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation then undertaken whether or not payment is probable. Similar accounting guidelines exist in Canada (refer to note 2(a)) but do not require liability recognition at the inception. For U.S. GAAP purposes, no liabilities were recognized as at January 1, 2003 and December 31, 2003 as a result of the application of FIN 45.

e) Goodwill and Other Intangible Assets

On January 1, 2002, the Company applied SFAS 142, *"Goodwill and Other Intangible Assets"*. This standard is essentially the same as a recently issued accounting standard of the CICA. Refer to note 2(c) for a description of the impact on the Company of the implementation of this new standard.

f) Accounting for the Impairment or Disposal of Long-Lived Assets

On January 1, 2002, the Company applied SFAS 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"*. SFAS 144 addresses financial accounting impairment or disposal of long-lived assets and requires that one accounting model be used for long-lived assets to be disposed of by sale. The standard also broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations, and changes the timing for recognizing losses on such operations. The adoption of this standard did not have any impact on the financial position or results of operations of the Company.

g) Accounting for Derivative Instruments and Hedging Activities

On January 1, 2001, for U.S. reporting purposes, the Company applied FASB Statement 133, *"Accounting for Derivative Instruments and Hedging Activities"*, as amended by SFAS 137, *"Accounting for Derivative Instruments and Hedging Activities—Deferral of Effective Date of FASB Statement 133"*, and by SFAS 138, *"Accounting for Certain Derivative Instruments and Certain Hedging Activities"*. The presentation standards for derivative instruments and hedging activities are described in these statements. Under these statements, all derivative instruments are accounted for at their fair value and recognized based on their anticipated use and designation as a hedge. The application of this standard as at January 1, 2001 resulted in a charge of $0.2 million after tax to comprehensive earnings (note 19(t)). Subsequently, SFAS 133 was amended by SFAS 149, *"Amendment of Statement 133 on Derivative Instruments and Hedging Activities"*, which applies to contracts entered into or modified after June 30, 2003 and hedging relationships designated after June 30, 2003. The application of this amendment did not have any impact on the financial portion or results of operations of the Company.

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Reconciliation of net earnings, shareholders' equity and balance sheet

h) The following summary sets out the material adjustments to the Company's reported net earnings, shareholders' equity and balance sheet which would be made in order to reconcile to U.S. GAAP. It also sets out a reconciliation of shareholders' equity under U.S. GAAP:

Reconciliation of net earnings

	Note	2003	2002	2001
Net earnings under Canadian GAAP		55	169	109
U.S. GAAP adjustments:				
Start-up costs	(i)	–	4	4
Gain realized on formation of Norampac	(j)	(4)	(5)	(5)
Unrealized exchange gains (losses) arising from foreign exchange forward contracts	(k)	7	3	(4)
Unrealized gains arising from change in fair values of commodity-derivative financial instruments	(l)	3	1	–
Provision for derivative instruments currently in default		–	2	(2)
Unrealized gains (losses) from interest rate swaps	(m)	1	1	(3)
Employee future benefits	(n)	2	1	(1)
Dividends on preferred shares of a subsidiary	(p)	1	3	4
Stock-based compensation	(q)	–	–	(1)
Tax effect on above adjustments		(4)	(3)	3
Income taxes	(r)	–	–	4
Non-controlling interests		(1)	(3)	(4)
Net earnings under U.S. GAAP		60	173	104
Net earnings under U.S. GAAP per common share				
Basic		0.73	2.11	1.27
Diluted		0.73	2.09	1.27

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(tabular amounts in millions of Canadian dollars)

	2003		2002		2001	
	Number of shares		Number of shares		Number of shares	
Common stock						
Balance at beginning of year	**81,826,272**	**261**	80,987,466	254	80,900,663	254
Shares issued on exercise of stock options	**180,115**	**2**	407,062	3	86,803	–
Redemption of common shares	**(275,000)**	**(1)**	(238,400)	(1)	–	–
Shares issued in connection with the 2000 privatization	–	–	670,144	5	–	–
Balance at end of year	**81,731,387**	**262**	81,826,272	261	80,987,466	254
Adjustment relating to stock options						
Balance at beginning of year		**3**		2		1
Adjustment of the year		**1**		1		1
Balance at end of year		**4**		3		2
Retained earnings						
Balance at beginning of year		**788**		629		535
Net earnings for the year		**60**		173		104
Dividend on common shares		**(13)**		(10)		(9)
Dividend on preferred shares		**(1)**		(1)		(1)
Excess of common share redemption price over their paid-up capital		**(2)**		(3)		–
Balance at end of year		**832**		788		629
Cumulative other comprehensive earnings						
Balance at beginning of year		**38**		12		11
Annual changes—net of tax						
Translation adjustments		**(34)**		32		5
Minimum pension liability		–		(6)		(3)
Reclass to earnings of cumulative net loss on adoption of SFAS 133 and 138		–		(1)		1
Rounding		–		1		(2)
Balance at end of year		**4**		38		12
Rounding		**1**		–		1
Shareholders' equity—End of year		**1,103**		1,090		898

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

Reconciliation of shareholders' equity

	Note	2003	2002	2001
Shareholders' equity under Canadian GAAP		1,056	1,065	870
U.S. GAAP adjustments:				
Start-up costs	(i)	(5)	(5)	(9)
Gain realized on formation of Norampac	(j)	62	66	71
Unrealized exchange gains (losses) arising from foreign exchange forward contracts	(k)	7	–	(3)
Unrealized gains (losses) arising from change in fair values of commodity-derivative financial net of provision for instruments currently in default	(l)	4	1	(1)
Unrealized losses from interest rate swaps	(m)	–	(2)	(3)
Employee future benefits	(n)	(10)	(12)	(13)
Minimum pension liability	(o)	(16)	(15)	(5)
Privatization	(s)	–	(1)	(1)
Tax effect on above adjustments		(5)	(1)	(2)
Income taxes	(r)	–	–	–
Class B preferred shares	(bb)	–	(6)	(6)
Excess of redemption price of Class B preferred shares on their paid-up capital	(bb)	10	–	–
Shareholders' equity under U.S. GAAP		1,103	1,090	898

Reconciliation of balance sheet

	Note	2003		2002	
		Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Property, plant and equipment	(j)(s)(bb)	1,636	1,684	1,604	1,640
Other assets and goodwill (long-term)	(i) to (n) and (y)	269	297	339	358
Accounts payable and accrued liabilities	(k)(l)(m)	453	452	483	486
Long-term debt, excluding current portion	(p)	1,092	1,092	1,048	992
Other liabilities (long-term)	(i)(j)(k)(l)(n)(o)(p)(r)(s)(bb)	265	293	216	299
Shareholders' equity	(i) to (s) and (bb)	1,056	1,103	1,065	1,090

The amounts presented in the above table under both Canadian GAAP and U.S. GAAP include joint ventures accounted for under the proportionate consolidation method as described in note 19(x).

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i) Under Canadian GAAP, start-up costs are deferred and amortized over a period not exceeding five years. Under U.S. GAAP, start-up costs are accounted for under Statement of Position ("SOP") No. 98–5, *"Reporting on the Costs of Start-up Activities"*, and are included in the statement of earnings in the period they are incurred.

j) On December 30, 1997, the Company and Domtar Inc. merged their respective containerboard and corrugated packaging operations to form Norampac Inc., a 50–50 joint venture. Under Canadian GAAP, a portion of the gain realized on the transaction of an original amount of approximately $58 million, net of tax, was recorded against property, plant and equipment and goodwill. Under U.S. GAAP, this gain would have been recognized in earnings on December 30, 1997.

In addition, under U.S. GAAP, additional liabilities would have been included in the allocation of the purchase price at the date of the transaction with respect to employee future benefits with a corresponding adjustment to goodwill.

k) Under Canadian GAAP, gains and losses arising from foreign exchange forward contracts used to hedge anticipated sales or purchases are charged to earnings as an adjustment of sales or cost of sales when the underlying sale or purchase is recorded. Under U.S. GAAP, the foreign exchange forward contracts are not designated as hedges as defined in SFAS 133, *"Accounting for Derivative Instruments and Hedging Activities"*; therefore the unrealized gains and losses from these contracts are charged to earnings as they arise.

l) Under Canadian GAAP, gains and losses arising from swap commodity contracts are charged to earnings only when realized. Under U.S. GAAP, the unrealized gains and losses arising from these contracts, which do not meet requirements of hedging as defined in SFAS 133, *"Accounting for Derivative Instruments and Hedging Activities"*, are charged to earnings. However, the net unrealized loss of $0.2 million after tax that existed upon the adoption of SFAS 133 and SFAS 138 has been recorded to comprehensive earnings and is being transferred to earnings as the contracts mature.

m) Under Canadian GAAP, unrealized gains and losses on interest rate swaps designated as hedges are not recognized in the financial statements. Under U.S. GAAP, these contracts are not designated as hedges and therefore, the unrealized gains and losses are charged to earnings. In addition, as described in note 16, the Company holds certain interest rate swap agreements for speculative purposes. Under both Canadian and U.S. GAAP, these instruments are marked to market on the balance sheet through earnings.

n) Before the adoption of CICA 3461, *"Employee Future Benefits"*, on January 1, 2000, the discount rate used in the measurement of pension costs and obligations under U.S. GAAP differed from the one used under Canadian GAAP. In addition, as allowed by Canadian GAAP before January 1, 2000, the Company recognized post-employment costs and obligations using the cash basis of accounting. Under CICA 3461, the treatment of pension costs is not materially different from U.S. GAAP. The remaining adjustments result from the amortization of actuarial gains and losses which arose prior to January 1, 2000.

o) Under U.S. GAAP, a minimum pension liability adjustment must be recorded when the accumulated benefit obligation of a plan is greater than the fair value of its assets. The excess of its liability over the intangible asset, which can also be recorded for the plan, is recorded in comprehensive earnings in shareholders' equity.

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p) Under Canadian GAAP, dividends on mandatorily redeemable preferred shares of a subsidiary are charged to earnings as interest expense. Under U.S. GAAP, declared dividends prior to July 1, 2003 are charged to earnings but as non-controlling interests. Since July 1, 2003, in accordance with SFAS 150, *"Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity"*, dividends are charged to earnings as interest expense.

In addition, under U.S. GAAP, declared dividends prior to July 1, 2003 would have been shown as a financing activity in the cash flows statement. Since July 1, 2003, these dividends are shown as an operating activity, as they are under Canadian GAAP.

q) Under U.S. GAAP and in accordance with SFAS 123, *"Accounting for Stock-Based Compensation"*, and subsequently amended by SFAS 148, *"Accounting by Stock-Based Compensation Transition and Disclosure"*, companies are permitted to apply the fair value method of accounting for stock-based compensation awards granted to employees. Under Canadian GAAP, the Company applied the recommendations of CICA 3870, *"Stock-Based Compensation and Other Stock-based Payments"*, as described in note 2(e) which also permits the fair value method of accounting for stock-based compensation awards granted to employees. As a result, there is no Canadian GAAP to U.S. GAAP adjustment to earnings for stock options granted after January 1, 2002. Prior to the adoption of CICA 3870, under Canadian GAAP, compensation expense was not recognized for stock options. Any consideration paid by employees on the exercise of stock options is credited to share capital. Under U.S. GAAP, the fair value of options issued prior to January 1, 2002 was estimated based on the following weighted average assumptions:

Risk-free interest rate	5.24%
Expected dividend yield	1.75%
Expected life of the options	6 years
Expected volatility	28%
Weighted average fair value per option	$2.16

r) Under Canadian GAAP, income tax rates of substantively enacted tax laws can be used to calculate future income tax assets and liabilities while under U.S. GAAP, only income tax rates of enacted laws can be used.

s) On December 31, 2000, the Company acquired shares held by non-controlling shareholders in three of its subsidiaries (the "privatized subsidiaries") in exchange for common shares of the Company. Under Canadian GAAP, the fair value of $6.85 attributed to the shares issued represents the quoted market value of the Company's shares at the date of privatization. Under U.S. GAAP, the fair value attributed to the shares issued would have been $6.67 which represents the quoted market value of the Company's shares during a reasonable period before and after the date the transaction was agreed upon and announced. Since the excess of the net book value of the non-controlling interests over their purchase price has been recorded under Canadian GAAP as a decrease of property, plant and equipment and future income tax liabilities, the adjustment resulting from a different measurement date as stated above would affect these accounts accordingly.

In addition, Canadian GAAP to U.S. GAAP reconciliation items described in note 19(i) to (r) and affecting the privatized subsidiaries prior to December 31, 2000 would affect the computation of the net book value of the non-controlling interests and therefore the adjustment to property, plant and equipment and future income tax liabilities at the date of the privatization.

For the three-year period ended December 31, 2003
(tabular amounts in millions of Canadian dollars)

t) Comprehensive earnings

	2003	2002	2001
Net earnings under U.S. GAAP	60	173	104
Translation adjustments	(34)	32	5
Minimum pension liability adjustment, net of related income taxes[1]	–	(6)	(3)
Cumulative net loss on adoption of SFAS 133 and 138, net of related income taxes[2]	–	–	–
Reclass to earnings of cumulative net loss on adoption of SFAS 133 and 138, net of related income taxes[3]	–	(1)	1
Comprehensive earnings under U.S. GAAP	26	198	107

(1) The minimum pension liability adjustment represents $0.3 million, $6.3 million and $3.4 million for the years ended December 31, 2003, 2002 and 2001 respectively, net of related income taxes of $0.1 million, $3.2 million and $1.8 million for the years ended December 31, 2003, 2002 and 2001 respectively.
(2) The cumulative net loss on adoption of SFAS 133 and 138 represents an adjustment of $0.2 million on January 1, 2001, net of related income taxes of $0.2 million.
(3) The reclass to earnings of cumulative net loss on adoption of SFAS 133 and 138 represents income of $0.1 million, income of $0.5 million and an expense of $0.6 million for the years ended December 31, 2003, 2002 and 2001 respectively, net of related income taxes of $0.04 million, $0.3 million and $0.3 million for the years ended December 31, 2003, 2002 and 2001 respectively.

u) Accumulated other comprehensive earnings

	2003	2002
Cumulative translation adjustments	14	48
Cumulative minimum pension liability adjustments, net of related income taxes	(10)	(10)
	4	38

v) For pension plans where the accumulated benefit obligation ("ABO") exceeds the fair value of plan assets under U.S. GAAP, the projected benefit obligation ("PBO"), ABO and fair value of plan assets are as follows:

	2003	2002
PBO	126	111
ABO	120	106
Fair value of plan assets	102	86

w) Under Canadian GAAP, cost of delivery billed to customers is classified as a deduction from sales in determining the amount of net sales, while under U.S. GAAP, delivery costs billed to customers are classified as a component of cost of sales (see note 2(i)).

x) Under Canadian GAAP, investments in joint ventures are accounted for using the proportionate consolidation method. Under U.S. GAAP, investments in joint ventures are accounted for using the equity method. The different accounting treatment affects only the display and classification of financial statement items and not net earnings or shareholders' equity. Rules prescribed by the Securities and Exchange Commission of the United States ("SEC") permit the use of the proportionate consolidation method in the reconciliation to U.S. GAAP provided the joint venture is an operating entity and the significant financial operating policies are, by contractual arrangement, jointly controlled by all parties having an equity interest in the joint venture. In addition, the Company discloses in note 18 the major components of its financial statements resulting from the use of the proportionate consolidation method to account for its interests in joint ventures.

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(tabular amounts in millions of Canadian dollars)

y) Under Canadian GAAP, the Company's deferred financing costs are amortized on a straight-line basis over the anticipated period of repayment of the underlying debt. Under U.S. GAAP, such costs are amortized under the interest method. Amortization under both methods was not materially different for each of the periods presented.

z) Under U.S. GAAP, the dilution gains of 2001 and 2002 amounting to $1 million and $23 million respectively as described in note 11(b) would have been disclosed separately on the statement of earnings.

aa) Under U.S. GAAP, the premium paid on redemption of long-term debt would be classified as an operating activity and not as cash flow used in financing activities. In addition, under U.S. GAAP, financing charges incurred in 2003 amounting to $29 million would be classified as an operating activities rather than financing activities.

bb) Under Canadian GAAP, the Class B preferred shares of a subsidiary are included under capital stock (note 9(b)). Under U.S. GAAP, these preferred shares would be shown on the balance sheet as a non-controlling interest. As described in note 9(b), in 2003, the Company redeemed all of the outstanding Class B preferred shares of a subsidiary for a consideration of $16 million. Under Canadian GAAP, the excess of the redemption price of $10 million over the recorded capital was included in retained earnings. Under U.S. GAAP, as these preferred shares represent a non-controlling interest, the excess of $10 million would have been recorded as an increase of $15 million in property, plant and equipment and an increase of $5 million in future income tax liabilities. In addition, under U.S. GAAP, the premium paid on redemption would be classified under investing activities rather than financing activities.

Accounting pronouncements not yet implemented under U.S. GAAP

cc) Variable interest entities

In January 2003, FASB issued FIN 46, *"Consolidation of Variable Interest Entities"*. The primary objective of this interpretation is to provide guidance on the identification of, and financial reporting for, entities over which control is achieved through means other than voting rights; such entities are known as variable interest entities (VIEs). FIN 46 applied immediately to all VIEs created after January 31, 2003. Recently, the FASB announced the deferral of the effective date of FIN 46 for VIEs created prior to February 1, 2003. Previously, FIN 46 was to be effective for the first interim or annual period ending after December 15, 2003 for VIEs created prior to February 1, 2003. It is now effective for fiscal years beginning on or after July 1, 2004. The adoption of this standard will not have any impact on the financial position or results of operations of the Company.

For the years ended December 31 (in millions of Canadian dollars, except per share amounts and ratios) (unaudited)	2003	2002	2001
Highlights–Consolidated Results			
Net sales	3,227	3,375	3,023
Cost of sales and expenses	2,977	2,951	2,643
Operating income before depreciation and amortization (OIBD)	250	424	380
Depreciation and amortization	145	139	132
Operating income	105	285	248
Interest expense	83	72	86
Foreign exchange loss (gain) on long-term debt	(72)	–	14
Unusual losses (gains)	22	4	(7)
	72	209	155
Provision for income taxes	14	61	49
Share of results of significantly influenced companies	3	(22)	(3)
Share of results attributed to non-controlling interests	–	1	–
Net earnings	55	169	109
Net earnings per common share	$ 0.66	$ 2.07	$ 1.33
Highlights–Consolidated Cash Flow			
Cash flow generated by operating activities	140	325	314
Purchase of property, plant & equipment	122	129	122
Business acquisitions	31	131	148
Business disposals	–	4	–
Net change in long-term debt	127	(26)	(29)
Dividends on common shares	13	10	9
per common share	$ 0.16	$ 0.12	$ 0.12
Dividend yield	1.3%	1.0%	1.2%
Highlights–Consolidated Balance Sheet (as at December 31)			
Working capital	508	386	348
Property, plant & equipment	1,636	1,604	1,481
Total assets	2,927	2,959	2,733
Total long-term debt	1,110	1,095	1,103
Non-controlling interests	3	2	18
Shareholders' equity	1,056	1,065	870
per common share	$ 12.93	$ 13.02	$ 10.75
Stock Market Highlights			
Shares issued and outstanding (in millions)	81.7	81.8	81.0
Trading volume (in millions)	25.9	41.3	31.7
Market capitalization	1,012	1,281	843
Closing price	$ 12.38	$ 15.65	$ 10.41
High	$ 16.87	$ 18.25	$ 10.44
Low	$ 11.15	$ 10.30	$ 6.41
Key Financial Ratios			
Return on shareholders' equity	5%	18%	13%
OIBD/net sales	8%	13%	13%
OIBD/interest	3.0x	5.9x	4.4x
Net funded debt/OIBD	4.5x	2.7x	3.1x
Net sales/total capitalization	1.3x	1.4x	1.3x
Net funded debt/total capitalization	46%	47%	51%
Total debt/total debt + shareholders' equity	52%	53%	58%
Price to earnings	18.8x	7.6x	7.8x
Price to book value	1.0x	1.2x	1.0x

2000	1999	1998	1997	1996	1995	1994
2,866	2,615	2,527	2,109	2,012	2,184	1,643
2,527	2,306	2,211	1,860	1,726	1,879	1,469
339	309	316	249	286	305	174
125	117	113	94	86	78	66
214	192	203	155	200	227	108
89	85	89	59	67	71	62
10	(14)	15	6	–	–	–
1	3	15	(9)	(32)	(21)	(10)
114	118	84	99	165	177	56
49	42	44	32	57	38	18
(5)	(5)	(1)	(1)	1	–	–
3	8	9	9	22	26	4
67	73	32	59	85	113	34
$ 1.00	$ 1.08	$ 0.48	$ 0.85	$ 1.37	$ 1.84	$ 0.45
169	141	186	117	195	163	38
148	128	227	153	118	114	73
31	13	51	99	–	31	6
1	17	1	–	84	–	13
30	(40)	83	188	(17)	(12)	(12)
7	7	7	6	6	–	–
$ 0.11	$ 0.10	$ 0.10	$ 0.10	$ 0.10	–	–
1.6%	1.1%	1.3%	1.0%	1.3%	–	–
384	353	364	339	218	206	141
1,376	1,355	1,400	1,314	1,114	1,145	944
2,627	2,434	2,467	2,319	1,874	1,930	1,629
1,096	1,044	1,158	1,076	690	716	561
31	185	196	208	178	192	137
766	647	600	559	591	525	418
$ 9.47	$ 9.66	$ 8.97	$ 8.41	$ 8.26	$ 7.02	$ 5.13
80.9	66.9	66.9	66.4	56.4	57.6	57.8
13.9	8.9	13.1	32.8	33.2	18.6	30.1
554	589	522	681	434	411	426
$ 6.85	$ 8.80	$ 7.80	$ 10.25	$ 7.70	$ 7.13	$ 7.37
$ 10.50	$ 10.25	$ 11.30	$ 11.50	$ 8.20	$ 8.12	$ 8.87
$ 6.05	$ 7.50	$ 6.80	$ 6.45	$ 5.50	$ 6.50	$ 6.37
10%	12%	6%	10%	15%	24%	9%
12%	12%	13%	12%	14%	14%	11%
3.8x	3.6x	3.5x	4.2x	4.3x	4.3x	2.8x
3.5x	3.6x	3.7x	4.3x	2.4x	2.6x	3.5x
1.3x	1.3x	1.2x	1.1x	1.3x	1.3x	1.2x
53%	54%	56%	54%	43%	49%	46%
61%	64%	67%	67%	56%	62%	61%
6.8x	8.1x	16.3x	12.1x	5.6x	3.9x	16.4x
0.7x	0.9x	0.9x	1.2x	0.9x	1.0x	1.4x

October 18, 1963

Bernard and Laurent Lemaire present an offer to *Union régionale de Trois-Rivières,* owner of the Kingsey Falls mill, to rent their installation, with an option to buy. The offer is accepted.

March 26, 1964

The new business is founded under the name Cascades Paper Inc. Its first directors are Antonio, Bernard and Laurent Lemaire, occupying the positions of President, Vice-President and Secretary, respectively.

March 1967

Cascades Paper exercises its option to buy the Kingsey Falls mill for $560,000. That same year, Alain Lemaire becomes a permanent member of the team.

June 1971

With the founding of Cascades Forma-Pak, a moulded pulp plant, Cascades now has two manufacturing facilities at Kingsey Falls.

October 1976

Start-up of Cascades Paper (Cabano) Inc., a plant originally owned by Cascades Paper (30%), Rexfor (30%), SDI (20%) and the citizens of Cabano (20%). Today, the plant is part of Norampac.

December 1982

Cascades Paper Inc. becomes Cascades Inc. First public offering and listing on the Montréal Stock Exchange.

May 1983

First U.S. investment, with founding and operation of Cascades Industries Inc., in North Carolina. This plant specializes in the manufacture of tissue paper.

1985 and 1986

European activities begin with the acquisition of a boxboard plant in La Rochette, France. The following year, Cascades S.A. becomes the European holding of Cascades Inc.

1987 to 1989

Cascades continues its acquisition activities, notably at Blendecques, France, as well as in Sweden, Belgium and Niagara Falls, New York.

1992

Laurent Lemaire succeeds his brother Bernard as President of Cascades. The Company acquires control of Rolland Inc. and its Graphic Resources division, as well as Paperboard Industries Corporation.

1995

Acquisition of controlling interest in publicly held Perkins Papers Ltd. and Boralex Inc. That same year, Cascades restructures into five specialized, autonomous business groups.

1997

Cascades and Domtar combine their containerboard and corrugated products activities to form Norampac, a 50-50 joint venture.

December 2000

Cascades privatizes its three public subsidiaries—Paperboard Industries International Inc., Rolland Inc. and Perkins Papers Ltd.—to form a single public entity: Cascades Inc.

2000 to 2002

Cascades Tissue Group acquires Wood Wyant and pursues U.S. expansion with the purchase of Plainwell and American Tissue assets.

July 2003

Alain Lemaire takes over from his brother Laurent as President and CEO of Cascades.

2004

Cascades celebrates its 40-year anniversary and is recognized as one of “Canada’s Top 100 Employers™.” Its head office is still in Kingsey Falls.

Directors, Senior Management and General Information

BOARD OF DIRECTORS

Bernard Lemaire [1]
Chairman of the Board,
Cascades Inc.

Alain Lemaire [1]
President and Chief
Executive Officer,
Cascades Inc.

Laurent Lemaire [1]
Executive Vice-Chairman
of the Board,
Cascades Inc.

Norman Boisvert [1,3]
Vice-President,
Administration,
Cascades Inc.

Martin P. Pelletier [4]
Pulp and Paper Consultant

Paul R. Bannerman
Chairman of the Board,
Etcan International Inc.

Jacques Aubert [4]
Chairman of the Board and
Chief Executive Officer,
Junex Inc.

André Desaulniers [2,5]
Director of companies

Louis Garneau [3]
President, Louis Garneau
Sports Inc.

Sylvie Lemaire
President, Fempro Inc.

Michel Desbiens [3,5]
Consultant and Director
of companies

Laurent Verreault [2]
President and Chief
Executive Officer, Groupe
Laperrière & Verreault Inc.

Robert Chevrier [2]
President, Société de gestion
Roche Inc.

David McAusland [5]
Senior Vice-President,
Mergers and Acquisitions,
Chief Legal Officer, Alcan Inc.

1 Member of the Administrative Committee

2 Member of the Audit Committee

3 Member of the Human Resources Committee

4 Member of the Environmental, Health and Safety Committee

5 Member of the Corporate Governance Committee

SENIOR MANAGEMENT

Bernard Lemaire
Chairman of the Board

Alain Lemaire
President and Chief
Executive Officer

Laurent Lemaire
Executive Vice-Chairman
of the Board

Robert F. Hall
Vice-President, Legal Affairs
and Corporate Secretary

André Belzile
Vice-President, and Chief
Financial Officer

Norman Boisvert
Vice-President,
Administration

Claude Cossette
Vice-President,
Human Resources

Alain Ducharme
Corporate Vice-President

Jean-Luc Bellemare
Vice-President,
Information Technology

François Chagnon
Vice-President, Purchasing

Suzanne Blanchet
President and Chief
Executive Officer,
Cascades Tissue Group

Marc-André Dépin
President and Chief
Executive Officer,
Norampac Inc.

Denis Jean
President and Chief
Executive Officer,
Cascades Fine Papers Group

Éric Laflamme
President and Chief
Operating Officer,
North America,
Cascades Boxboard Group

Mario Plourde
President and Chief
Operating Officer,
Specialty Products Group

Stéphane Thiollier
Vice-President,
Managing Director,
Cascades S.A.

INVESTOR RELATIONS

For additional information, please contact:
Marc Jasmin, CMA
Director, Investor Relations
Cascades Inc.
772 Sherbrooke Street West
Montréal, Québec H3A 1G1
Telephone: (514) 282–2681
Fax: (514) 282–2624
investor@cascades.com

GENERAL INFORMATION

The Annual General Meeting of Shareholders will be held on May 4, 2004 at 2:30 p.m. at Théâtre du Nouveau Monde, 84 Sainte-Catherine Street West, Montréal, Québec.

The 2003 Annual Information Form of Cascades Inc. will be available upon request from the Company's head office as of May 19, 2004.

On peut se procurer la version française du présent rapport annuel en s'adressant au :
Secrétaire corporatif
Cascades inc.
404, boul. Marie-Victorin
Kingsey Falls (Québec) J0A 1B0

Vous le trouverez aussi sur notre site Internet à l'adresse: www.cascades.com

Transfer agent and registrar: Computershare Trust Company of Canada Inc.

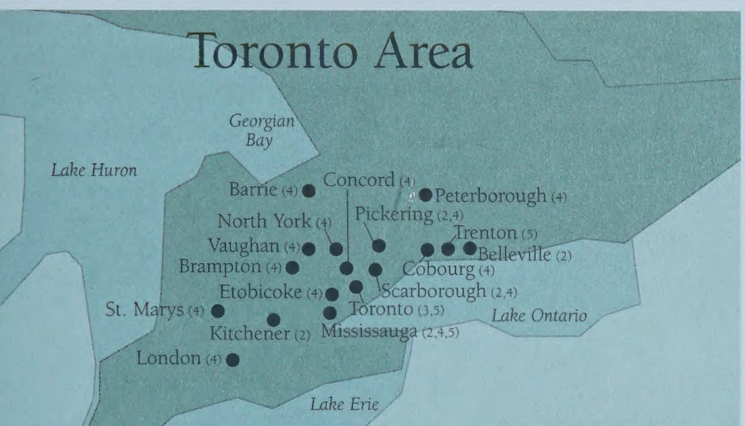
HEAD OFFICE

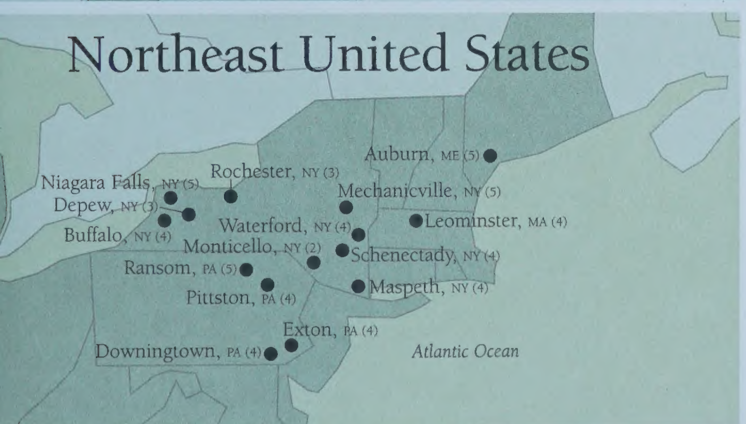
Cascades Inc.
404 Marie-Victorin Blvd.
Kingsey Falls, Québec
Canada J0A 1B0
Telephone: (819) 363–5100
Fax: (819) 363–5155

MEMBERS OF THE BOARD OF DIRECTORS, LEFT TO RIGHT: NORMAN BOISVERT, MARTIN P. PELLETIER, SYLVIE LEMAIRE, LOUIS GARNEAU, JACQUES AUBERT, LAURENT LEMAIRE, MICHEL DESBIENS, ANDRÉ DESAULNIERS, BERNARD LEMAIRE, PAUL R. BANNERMAN, ALAIN LEMAIRE, DAVID McAUSLAND, ROBERT CHEVRIER, LAURENT VERREAULT.

☆ HEAD OFFICE
2 DISTRIBUTION CENTRES
3 RECOVERY CENTRES
4 CONVERTING PLANTS
5 MILLS
6 SALES


Québec
L'Ascension (5)
Saint-François-de-Sales (4)
Jonquière (5)
St. Lawrence River
Cabano (5)
Québec (2,4)
Cap-de-la-Madeleine (5)
Louiseville (4,5)
Breakeyville (5)
Notre-Dame-du-Bon-Conseil (5)
Berthierville (4)
Kingsey Falls (4,5)
Saint-Jérôme (4,5)
Victoriaville (4)
Lachute (4,5)
Laval (4)
East Angus (5)
Hull (2)
Montréal (2,4,6)
Vaudreuil (4)
Candiac (5)
Sherbrooke (3)
Lachine (2,3)
Drummondville (3,4,5)


Toronto Area
Georgian Bay
Lake Huron
Barrie (4)
Concord (4)
Peterborough (4)
North York (4)
Pickering (2,4)
Trenton (5)
Vaughan (4)
Belleville (2)
Brampton (4)
Cobourg (4)
Etobicoke (4)
Scarborough (2,4)
St. Marys (4)
Toronto (3,5)
Lake Ontario
Kitchener (2)
Mississauga (2,4,5)
London (4)
Lake Erie


Northeast United States
Auburn, ME (5)
Rochester, NY (3)
Niagara Falls, NY (5)
Mechanicville, NY (5)
Depew, NY (3)
Waterford, NY (4)
Leominster, MA (4)
Buffalo, NY (4)
Monticello, NY (2)
Schenectady, NY (4)
Ransom, PA (5)
Maspeth, NY (4)
Pittston, PA (4)
Exton, PA (4)
Downingtown, PA (4)
Atlantic Ocean


Europe
Ronneby, SE
Wednesbury, UK (4,6)
Varsovie, PL (6)
Krefeld, DE (6)
Blendecques, FR (5)
Arnsberg, DE (5)
Prague, CZ (6)
Château-Thierry, FR (5)
Paris, FR (6)
Saulcy-sur-Meurthe, FR (4)
Boissy-le-Châtel, FR (5)
Châtenois, FR (4)
Budapest,
Milan, IT (6)
La Rochette, FR (5)


China
Hong Kong (6)

years of success

www.cascades.com

COVER PAPER: ROLLAND OPAQUE, SMOOTH FINISH, BRIGHT WHITE, 80 LB. *INSIDE-PAGE PAPER:* ROLLAND ENVIRO EDITION 100, 100% POST-CONSUMER, SMOOTH FINISH, WHITE, 60 LB. *PRODUCTION:* COMMUNICATIONS DEPARTMENT OF CASCADES INC. *DESIGN:* ARDOISE DESIGN COMMUNICATIONS INC. *PHOTOGRAPHY:* JEAN-FRANÇOIS GRATTON, YVES LACOMBE, RONALD MAISONNEUVE AND CHRISTIAN MARTIN *PREPRESS:* GROUPE QUADRISCAN *PRINTING:* INTEGRIA
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